ANTARES CAPITAL

The experience to lead

Antares Capital details how a quarter of a century of mid-market lending experience and almost a decade of unitranche financings have created long-term relationships and private credit expertise, making it a perennial number one in the sponsor league tables

The strategic relationships team at Antares Capital has been hard at work this past summer. At a time when mid-market M&A activity is forecast to remain sluggish for the next 12 to 18 months and significant capital committed to competitors remains on the sideline, Antares has doubled its number of investor coverage professionals and is actively engaging with new institutional investors interested in private equity-sponsored mid-market credit opportunities. Given Antares' market leadership, Tim Lyne, senior managing director and a co-founder of the firm, feels well positioned to continue winning quality assets for Antares and its co-investors.

Tim Lyne: we see many middle market credits before they come to auction

"There is no doubt that overall market activity is lighter in this current high-demand, low-supply market, but we're pleased with the number of opportunities we're seeing to invest in high-quality companies," says Lyne. "By virtue of our long-term relationships, we're seeing the vast majority of private credits – often before they come to auction given we agent the largest portfolio of borrowers in the middle market."

Lyne points out that this provides Antares with a unique advantage in selecting the best available opportunities. "We turn down more than 50 percent of the deals that we see. Often we've worked on prior financings for these credits, or their peers, which gives us excellent early insight on credit quality and the appropriate financing structure."

Unlike many of its competitors, Antares leads or co-leads more than 90 percent of the transactions it finances, and is the largest on balance sheet holder in the majority of these financings. Key to investors, this means their money is put to work alongside a material investment by Antares. Further enhancing this alignment with investor interests is the fact that a significant number of Antares employees have invested directly in Antares' equity as part of the firm's recent sale to the Canada Pension Plan Investment Board (CPPIB).

While Antares' experience with third-party institutional investors, including large pensions, is considerable, the firm's sale to CPPIB last year has opened the door for additional balance sheet growth and the ability to build relationships with new investors. Lyne, who also heads the firm's strategic relationships team managing investor relationships, confirms that Antares is close to sealing another co-investment programme, and has been receiving significant reverse inquiry.

"Previously we were constrained, understandably, by the appetite of our parent company to bring in investors. Today, we feel well positioned to drive growth for Antares and an expanding set of co-investment programmes," says Lyne.

He adds: "We have increased our average on balance sheet hold size per transaction since the transition to CPPIB ownership, and plan to continue this trend. Additionally, we are seeing a preference

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> **Tim Lyne**

David Brackett: our team is laser-focused

among some of our private equity customers for more pre-placed transactions," versus broadly syndicated executions, "often in financings for the most highly sought after assets".

Pre-placed financings, such as Lyne describes, have been more frequent in the mid-market in 2016.

As competition for fewer investment opportunities has intensified, private equity sponsors competing in broad auctions have sought competitive advantages, including financing commitments that provide sellers with greater certainty. Pre-placing loans through long-term lending relationships and their co-investment programmes has been embraced by some sponsors as an effective means of delivering sellers with greater execution certainty than a general syndication process.

POISED FOR EXPANSION

But market position and syndication trends are not the sole growth drivers for Antares as the firm looks ahead to the remainder of the year and beyond. Even with its favourable positioning in the private debt market, questions remain about how the firm expects to grow meaningfully in an asset-constrained macro environment.

Managing partner and co-chief executive David Brackett points to healthcare as one avenue of growth that has opened up to the firm following its sale a year ago from GE Capital to CPPIB.

"Under GE Capital, healthcare financing was mandated to a separate business, but today we are active in the space, an industry that was once roughly 20 percent of our portfolio prior to our GE ownership," he says. "Our team is laser-focused on bringing to bear our expertise in the space so we can prudently and profitably grow our balance sheet."

Since becoming a standalone company, the firm has evaluated more than 190 healthcare opportunities — 27 have closed representing more than $3.5 billion in global facilities and in excess of $1 billion in Antares commitments.

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Another area in which Antares has plans for growth is unitranche lending, building on the firm's experience as the first mid-market player to successfully scale a "one-stop" lending platform. Unlike many mid-market leaders today, while at GE, Antares began underwriting unitranche loans prior to the great recession.

In early 2008, Antares closed the Senior Secured Loan Program, a unitranche joint venture with Allied Capital whose SSLP positions were acquired by Ares Capital shortly after closing. In the time that ensued, SSLP executed more than $20 billion of "one-stop" financing commitments to private equity sponsored mid-market companies.

In 2014, Antares launched a second unitranche platform – the Middle Market Growth Program (MMGP) – to focus on lower mid-market opportunities in partnership with LStar Capital, the credit affiliate of Lone Star Funds. In its first year, MMGP closed more than $1 billion in financing commitments while SSLP remained active.

Despite Antares' sales process to CPPIB in 2015, private equity sponsors continued to look to Antares for one-stop solutions. And though the two joint ventures remained with GE Capital in the final sales structure, shortly following the close of its sale to CPPIB, Antares and LStar launched a new JV in Q4 2015. Also known as MMGP, the new programme provides unitranche loans to the broader mid-market across diversified sectors.

Lyne is optimistic about the future, noting the new programme has refinanced several borrowers out from the prior portfolios and delivered unitranche facilities to seven new customers in 1H 2016.

"Antares has had success with customers and co-investors given our vast experience in unitranche lending," he says. "Once our private equity sponsors use our one-stop products and witness the execution advantages, they tend to return. There's also a high level of scrutiny and selectivity as to when we offer the unitranche solution, since we are going deeper in the capital structure than a typical senior secured leverage level."

In loans originated across Antares' various unitranche programmes since 2008, there is yet to occur a payment default while managed by Antares.

THE ROAD AHEAD

Some may argue Antares should become more aggressive in its unitranche strategy. But Lyne and other senior leaders at Antares are confident in MMGP's ability to scale sustainably despite the current market environment. "The overall market is down, but MMGP, our healthcare efforts and broader business remain ahead of our projections," observes Lyne.

He notes the benefit of a senior team having worked together for more than 20 years, through various economic cycles. "It's important to remain a steady hand in all markets, pulling back and advancing prudently, without giving chase to new entrants who may not last the next downturn."

Rather, Antares remains committed to the senior secured lending fundamentals it was founded upon 20 years ago and focused on the unique growth opportunities ahead in the firm's next chapter. ■

Antares has ranked number one by number of deals in the Thompson Reuters LPC league tables nine of the last 10 years, and the last six years consecutively, for sponsor middle market financings <$500mm

ANTARES TIMELINE

1996 – Twelve deal professionals from Heller Financial start Antares, with capital from Mass Mutual

2005 – Antares is acquired by GE Capital for more than $5 billion

2008 – Senior Secured Loan Program (SSLP) is launched, a unitranche joint venture programme initially with Allied Capital, and subsequently Ares Capital

2012 – Closing of first separately managed account

2014 – Middle Market Growth Program (MMGP) is launched, a unitranche joint venture programme with LStar

2015 – Antares is acquired by Canada Pension Plan Investment Board as the primary business in a $12 billion transaction (excluding SSLP and MMGP)

2016 – MMGP is relaunched with LStar, as Antares' primary unitranche programme

2016 – Expansion of Strategic Relationships team and investor initiatives