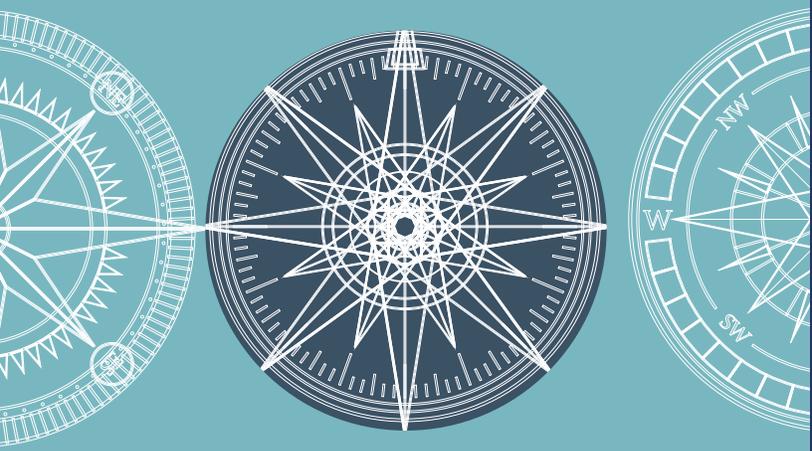


# 2019 ANTARES COMPASS REPORT

**A unique, triangulated perspective  
on the middle market from our portfolio companies,  
private equity sponsors and loan investors.**





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## **Resilient Optimism in U.S. Economy Drives Continued Investment Despite Growing Pessimism.**

Despite the rocky end for markets in 2018, confidence among middle market participants appears to be holding up well thus far in 2019 – boosting odds for further overtime in a record U.S. economic expansion. However, as late 2018 activity demonstrated, market shifts can happen quickly. As a lender, it remains critical as ever to be selective and maintain credit discipline.

Survey was completed mid-January 2019 and is based on responses from over 150 private equity sponsors, middle-market borrowers and loan investors. The information in this report is for informational purposes only, is current as of the date noted and should not be used or taken as finance, legal or other advice.

The information presented should not be deemed as a recommendation to purchase or sell any securities or investments mentioned. Although Antares Capital LP believes that the information contained herein has been obtained from sources believed to be reliable, Antares Capital LP does not guarantee its accuracy and it may be incomplete or condensed. Nothing within this publication should be deemed to be a research report. Past performance is not indicative of future results.

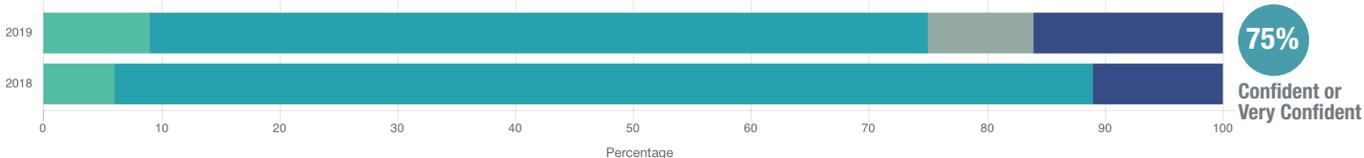


### Confidence in U.S. economy remains strong although optimism wanes and pessimism creeps up.

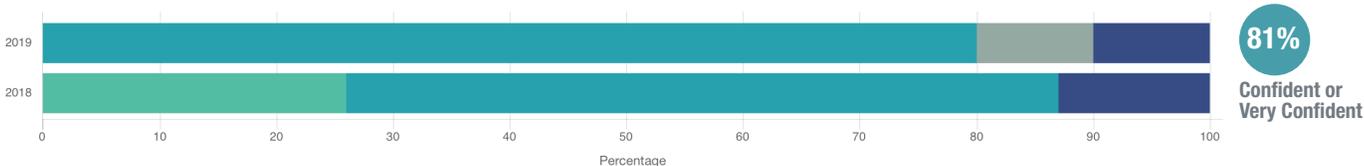
Our 3rd Annual Compass survey of sponsors, borrowers and investors completed in January 2019 suggests resilient optimism for the U.S. economy heading into 2019. Confidence has diminished a bit from remarkably high levels seen in early 2018 but remains generally strong, with 75% of sponsors, 81% of investors, and 72% of borrowers “confident” in the 2019 U.S. economic outlook.

#### How confident are you in the U.S. economy over the next 12 months?

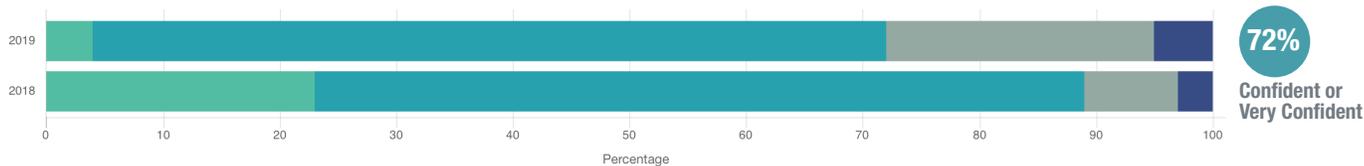
##### Sponsors



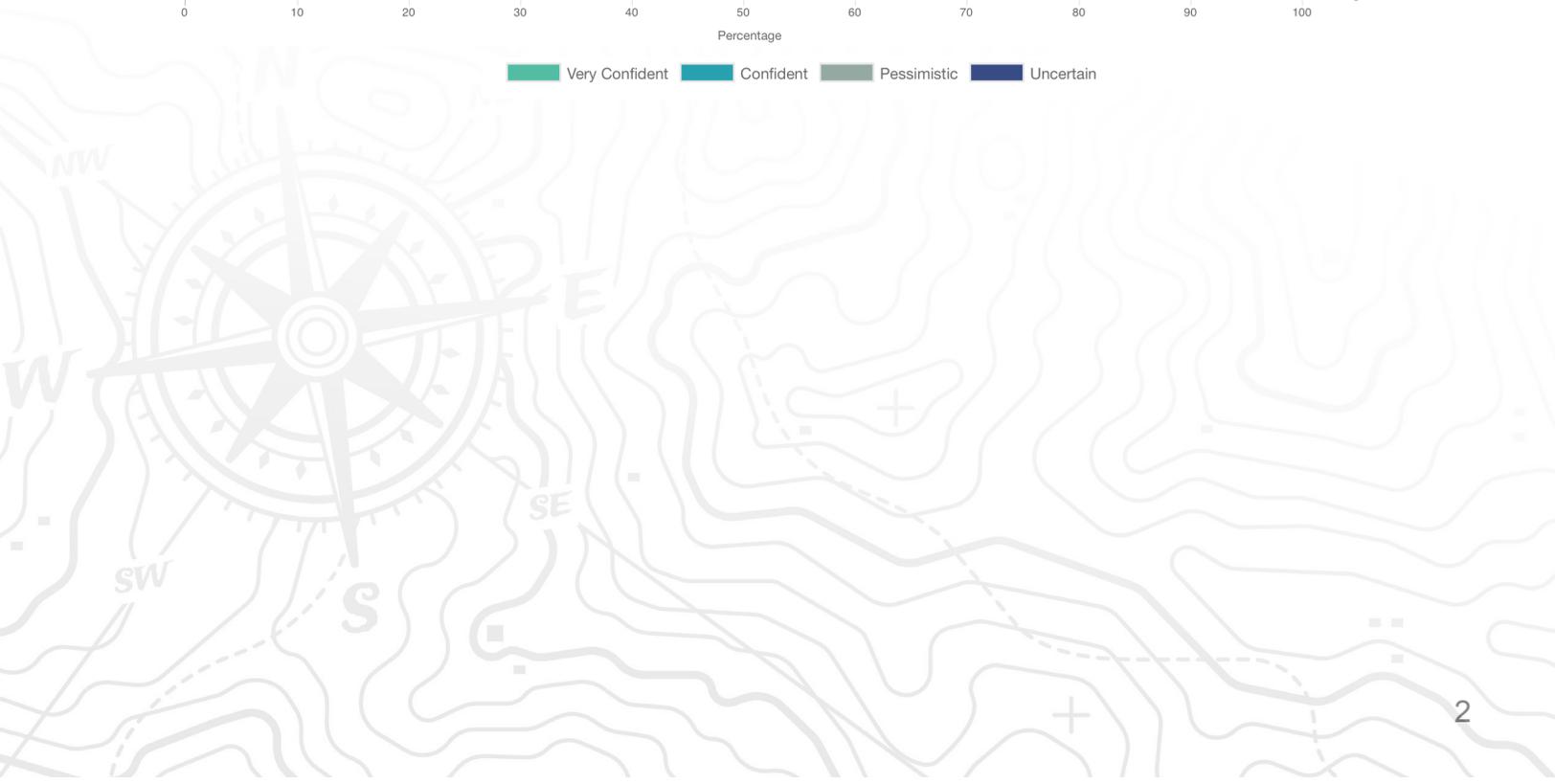
##### Investors



##### Borrowers



Very Confident Confident Pessimistic Uncertain



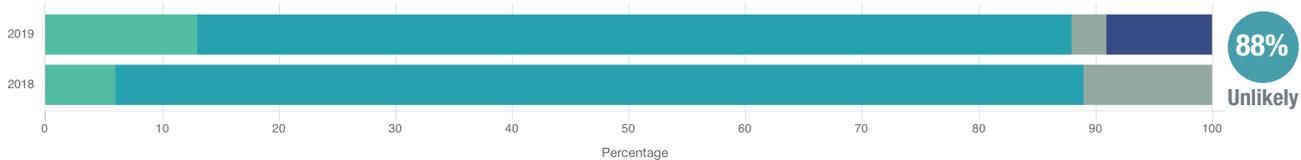


### Sponsors and Investors view a 2019 recession as unlikely, while Borrowers appear more apprehensive.

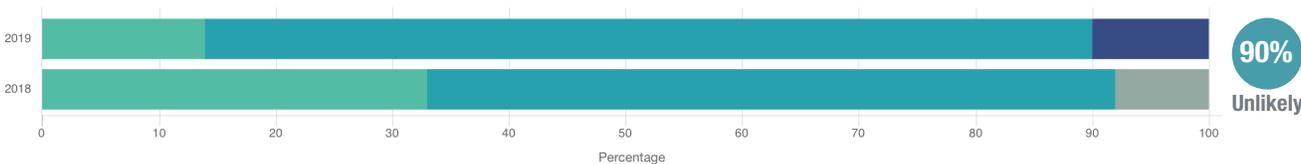
Nearly 90% of sponsors and investors see the odds of a U.S. recession as “unlikely” or “very unlikely” in 2019. Borrowers are somewhat more apprehensive with 60% saying a recession in 2019 is “unlikely” or “very unlikely,” while 25% say “likely.” Nevertheless, nearly 75% of borrowers expect moderate to strong revenue and EBITDA growth in 2019.

### In your opinion, what's the likelihood a U.S. economic recession will occur in the next 12 months?

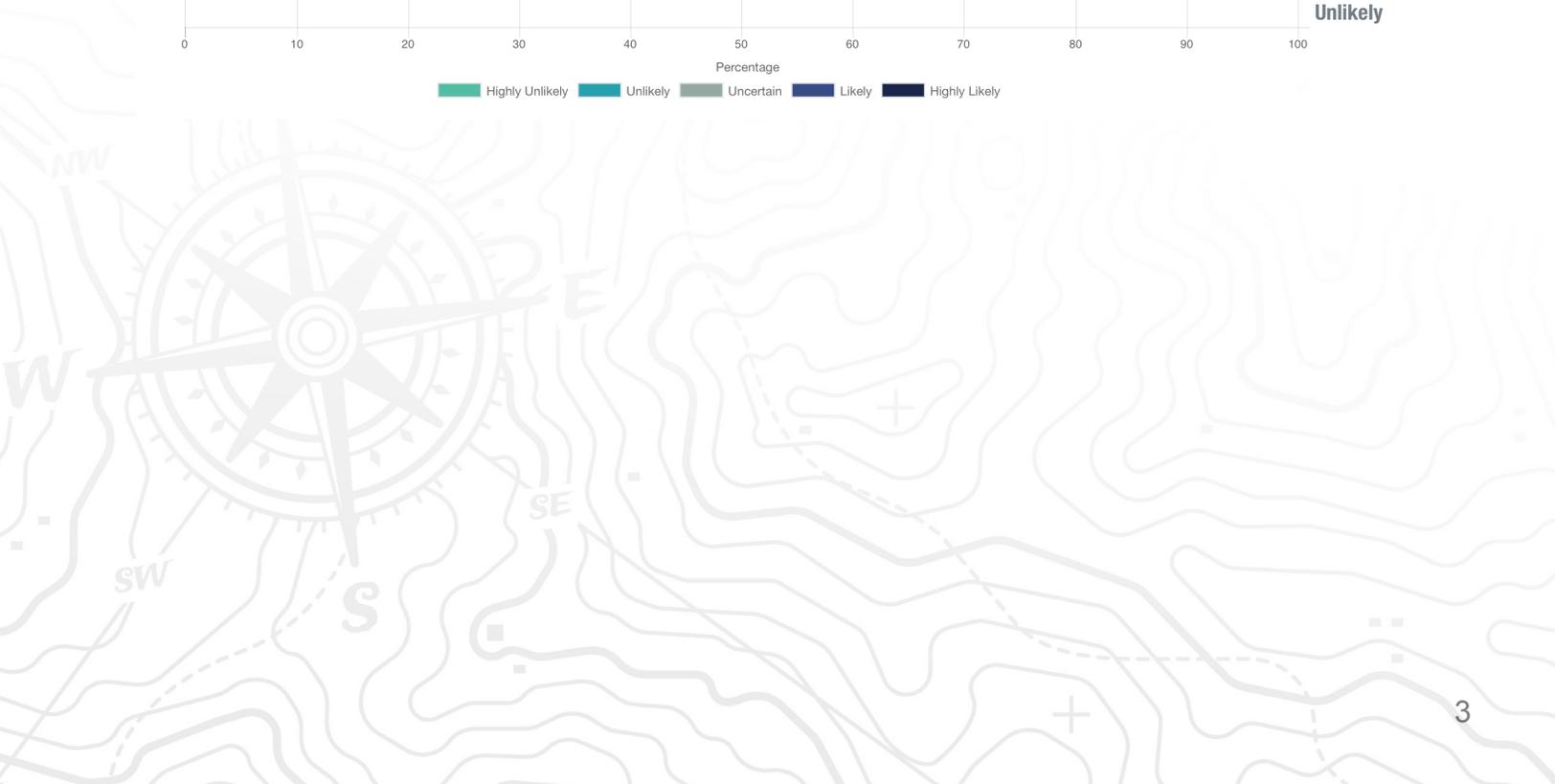
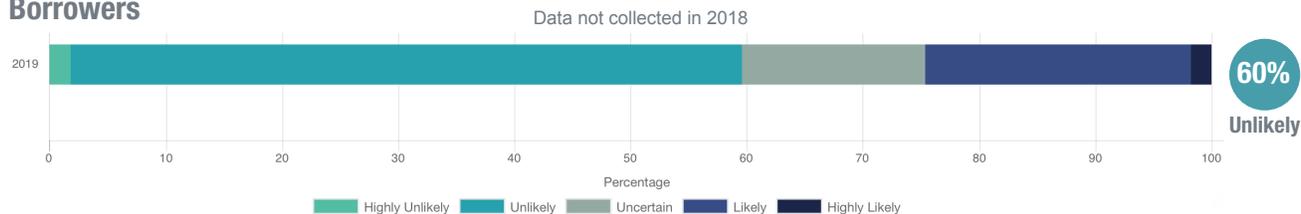
#### Sponsors



#### Investors



#### Borrowers



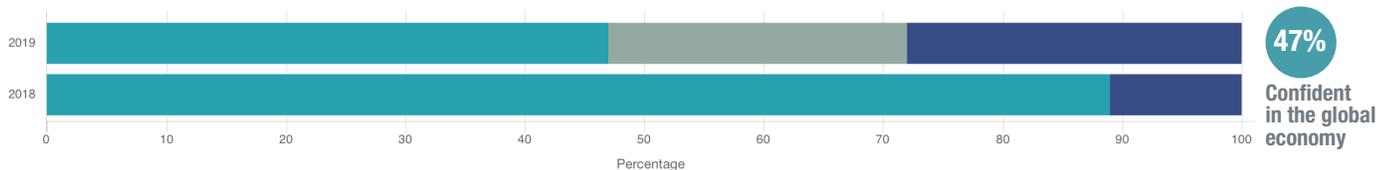


### There are signs of concern, with confidence in the global economy down significantly.

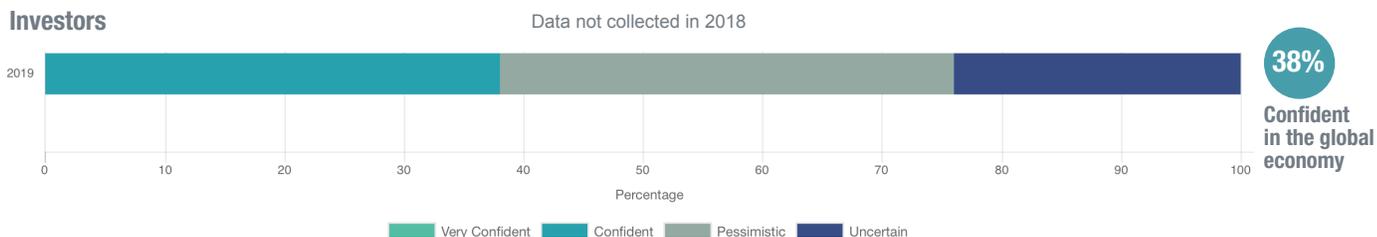
In contrast to the U.S., optimism regarding economies abroad has fallen sharply with a modest majority of sponsors and investors uncertain or pessimistic about the outlook vs. strong sponsor confidence seen a year ago.

### How confident are you in the global economy over the next 12 months?

#### Sponsors



#### Investors





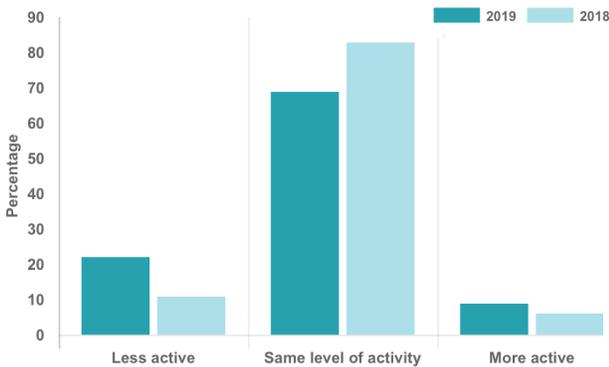
### After a stellar year, most see M&A activity as flat or less active.

On the deal front, most sponsors (69%) and investors (57%) expect M&A activity to be flat in 2019, but of the balance, about twice as many expect a decline as those that expect an increase, suggesting a tilt toward the downside. Within the mix of M&A, responses on LBO activity tilts toward “less active” while add-on activity is expected to be flat to “more active.” On the leveraged loan front, most loan investors (62%) polled expect volume to decline by 3-10% in 2019 in contrast to more flattish forecast view held in early 2018.

### Over the next 12 months, how do you see the middle market M&A environment shifting versus the last 12 months?

Only 9% of sponsors expect more activity in 2019, while most (69%) expect flat M&A volume. The biggest change came from sponsors who expect a decline, up to 22% from 11% last year.

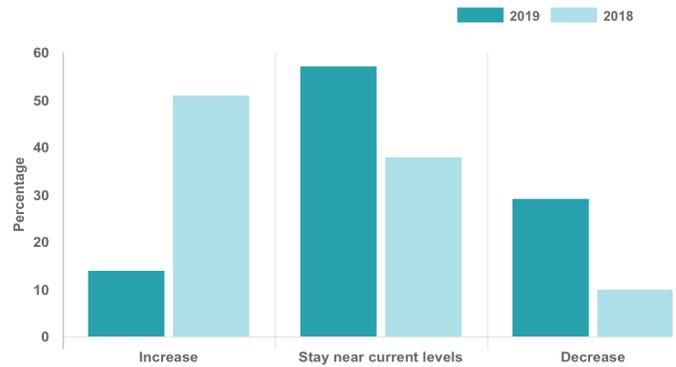
#### Sponsors



### What do you expect M&A activity to do over the next 12 months?

Many investors (57%) expect flat volume—a notable shift considering ~50% of investors indicated an increase in the last two years. Also, those expecting a decrease rose from 10% in 2018 to 29%.

#### Investors





In the mix of activity, LBOs are seen mostly flat (66%) to down (25%).

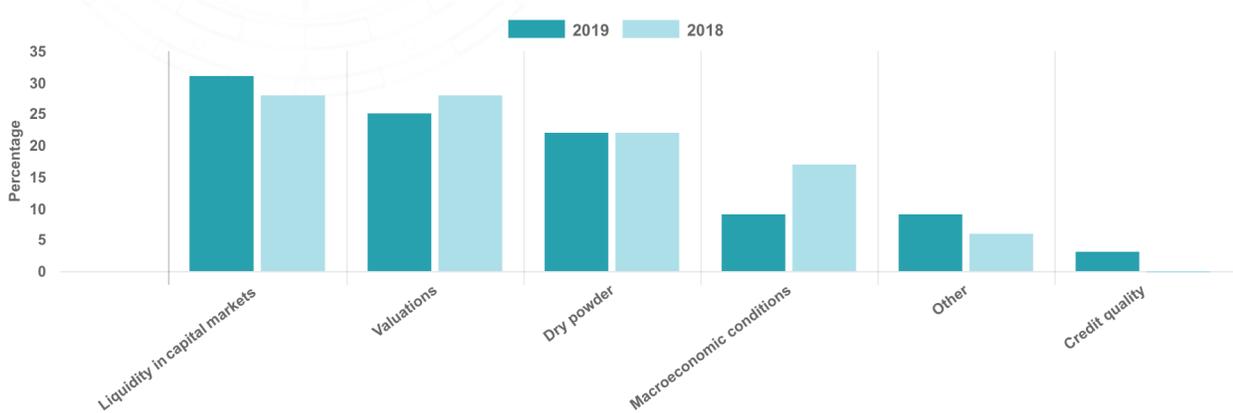


Add-ons, however, are expected to be more active (47%) or flat (44%).



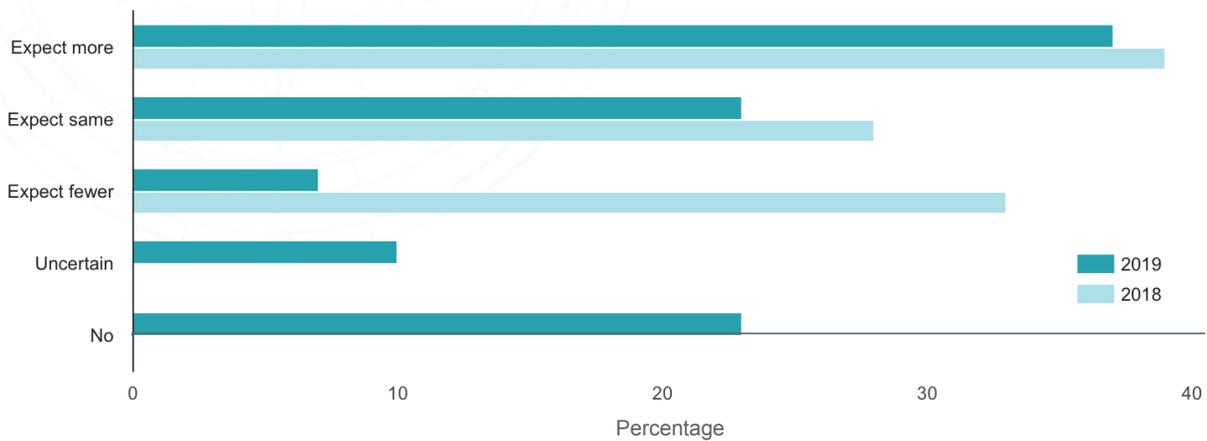
### What is the principal factor driving middle market M&A volume in the next 12 months?

According to sponsors, tension remains between two top drivers of M&A activity—high liquidity/access to cheap capital versus high valuations.



### Is your firm planning to sell businesses in your portfolio in the next 12 months?

Interestingly, a greater number of sponsors (23%, up from zero in 2018) said they do not expect to sell a portfolio business in the next 12 months.

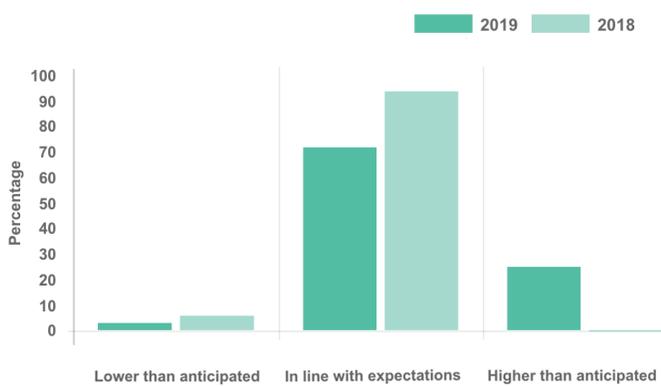




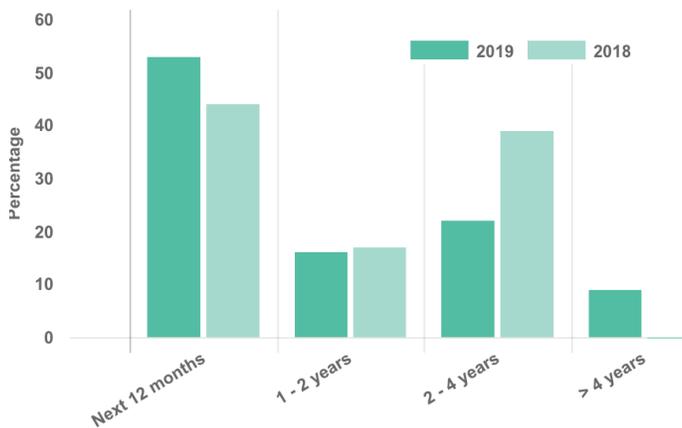
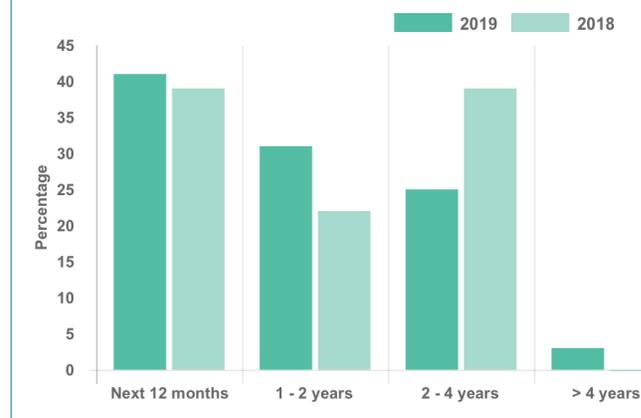
# SPONSORS: 2019 KEY TAKEAWAYS

25% indicated “higher than expected” levels of dry powder versus 2018 (up from zero). And there is some urgency around its deployment, with 41% expecting to do so in the next 12 months.

Expected Dry Powder Levels



Deployment of Dry Powder



### When do you expect your firm will raise its next fund?

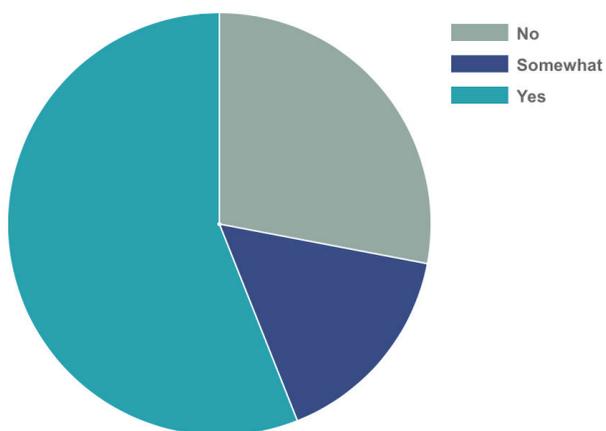
Even with higher than expected dry powder, the pace of fundraising is high. 53% indicated they plan to raise their next fund in the next 12 months (up from 44% in 2018).



## SPONSORS: 2019 KEY TAKEAWAYS (Continued)

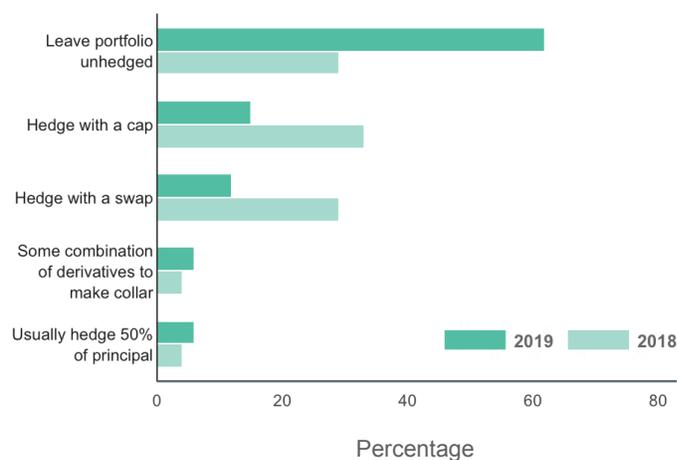
### Have you noticed an increased focus on ESG from LPs?

Most sponsors (72%) have noticed at least a “somewhat” increased focus from LPs on Environmental, Social and Governance (ESG), with 56% giving an emphatic “yes.”



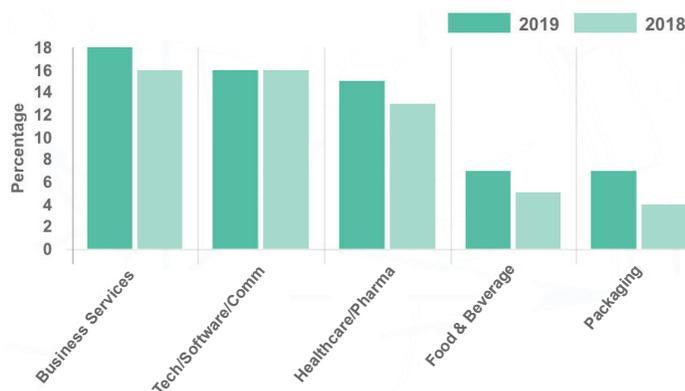
### In light of the current interest rate environment, how do you plan to manage interest rate risk over the next 12 months?

Significantly more sponsors are electing to leave their interest rate exposure unhedged this year than in 2018.



### Top Five Industries Expected to See Growth

When asked which industries are expected to experience the most growth in the next 12 months, Business Services, Technology, Software and Communications, and Healthcare & Pharmaceuticals continue to be sponsors' top picks.

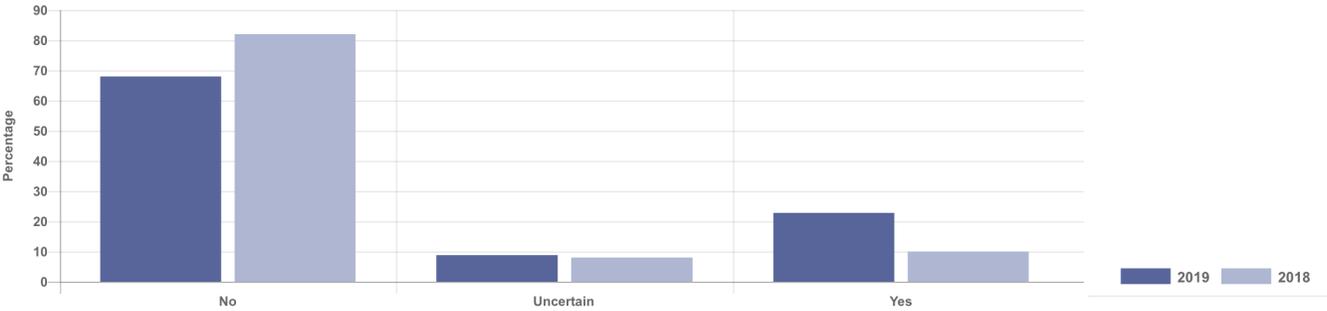




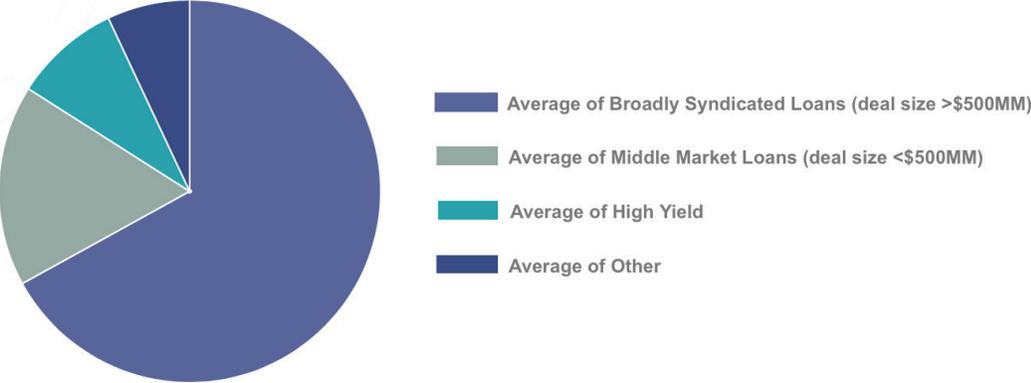
# INVESTORS: 2019 KEY TAKEAWAYS

As we enter 2019, a few more investors seem to be shifting their asset allocation mix than in the prior year (23% vs. 10%), with a shift towards high yield.

## Do you expect to change your asset allocation mix?

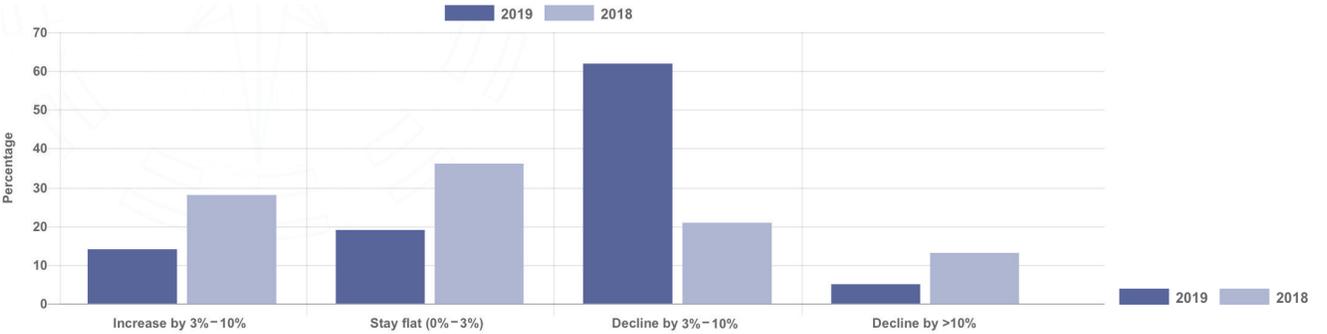


## If yes, what will the new mix be?



## Leveraged Loan Volume Over 12 Months

Most investors (62%) now expect leveraged loan volume to decline by 3-10% in 2019. This is in contrast to a more flattish forecast view held in 2018.



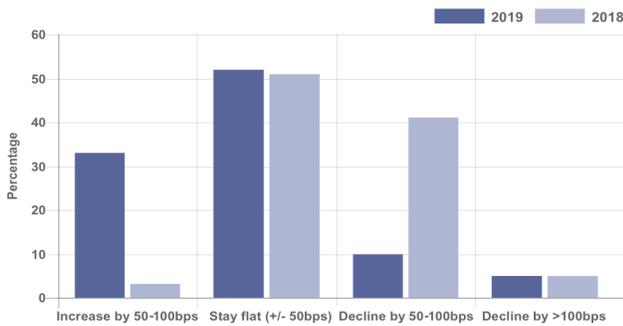


## INVESTORS: 2019 KEY TAKEAWAYS (Continued)

Most investors—both Broadly Syndicated Loan Investors and Middle Market-focused Investors—expect spreads to stay flat, or increase modestly in 2019. However, the percentage of Broadly Syndicated Loan Investors expecting wider spreads has jumped significantly.

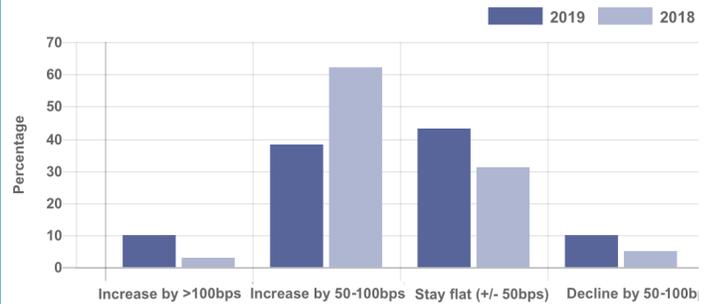
### Broadly Syndicated Loan Spreads

Over the next 12 months, how do you expect spreads for Broadly Syndicated Loans (with a deal size >\$500MM) to change?



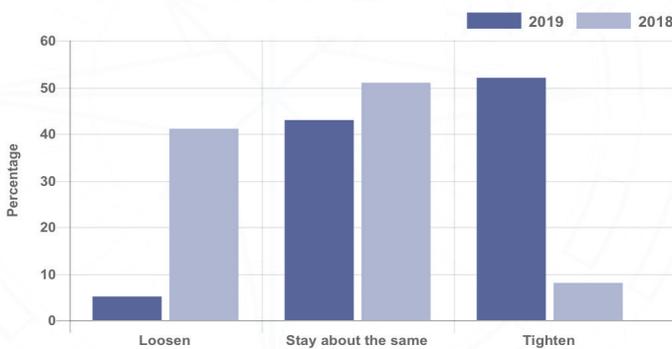
### Middle Market Loan Spreads

Over the next 12 months, how do you expect spreads for Middle Market Loans (with a deal size <\$500MM) to change?



### Expectations for Lender Terms in the Broadly Syndicated Market

There is a significant jump in expectations regarding the tightening of BSL market terms in 2019 versus prior years. Heading into the new year, 52% of investors expect tightening to occur, up from 8% a year ago.





# BORROWERS: 2019 KEY TAKEAWAYS

## With regards to revenue and EBITDA, how is your company's LTM performance, pro forma for acquisitions, tracking to management's original budget?

Borrowers' ability to hit revenue and EBITDA budgets has been trending positively since the initial survey, with misses for both revenue and EBITDA down to 31% and 34%, respectively, in 2019 survey, down from 46% for both revenue and EBITDA in 2018.

	Revenue		EBITDA	
	Above	Missed	Above	Missed
2017	22%	50%	24%	46%
2018	26%	46%	28%	46%
2019	37%	31%	37%	34%

## With regards to revenue and EBITDA, how would you describe your company's year-over-year performance goals for the next 12 months?

Borrowers increasingly see moderate to strong revenue growth (95%) and EBITDA growth (97%) over the next 12 months. This positive trend has continued since the survey's inception, up from 82% and 74%, respectively, in 2017.

	Distributor	Manuf.	Service Provider	2019 TOTAL
<b>REVENUE</b>				
Recovery from Decline	0%	4%	0%	2%
Flat (-2% < 2%)	0%	0%	4%	3%
Moderate Growth (3% < 5%)	44%	26%	15%	25%
Strong Growth (>5%)	56%	65%	81%	69%
<b>EBITDA</b>				
Recovery from Decline	0%	4%	0%	2%
Flat (-2% < 2%)	0%	4%	0%	2%
Moderate Growth (3% < 5%)	22%	17%	19%	19%
Strong Growth (>5%)	78%	74%	81%	78%

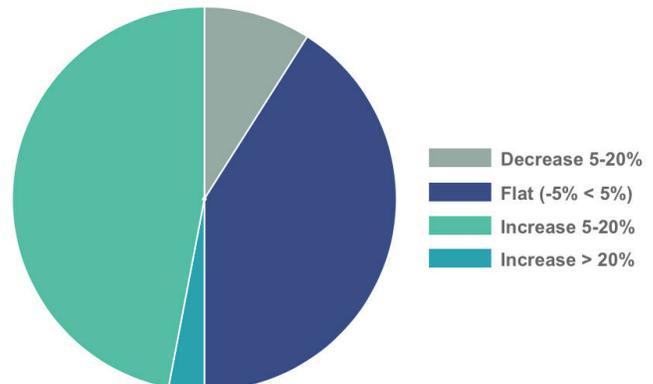
## By what % do you project your company's workforce to grow via new hires over the next 12 months?

The hiring outlook over the next 12 months continues to look strong, with 58% of borrowers expecting >3% growth in the new year.

	Over 0%	Over 3%	Over 5%
2017	18%	18%	18%
2018	85%	48%	28%
2019	92%	58%	34%

## Compared to the prior year, how do you expect your company's IT spend to change over the next 12 months?

As the year ramps up, more than 50% of the borrowers surveyed expected to increase their IT spend by 5% or more.





## BORROWERS: 2019 KEY TAKEAWAYS (Continued)

### How do you expect growth in your company's industry to trend in the upcoming year?

Borrowers continue to see positive, increased future growth in their industries, with 89% seeing moderate to high growth over the year, which is up from 74% last year.

	Flat	High-Mod
2017	26%	73%
2018	25%	74%
2019	11%	89%

### Top Five Areas of Spend

Similar to the last two years, using excess cash flow to make acquisitions is a top priority, followed by capital expansion. Sales/marketing is tied with hiring employees for third (hiring being up to 14% from 9% in 2018).

Total column does not equal 100% due to other categories making up the difference.

ECF Spend	Distributor	Manuf.	Service Provider	2019 Total
Acquisitions	19%	21%	24%	22%
Capital Equipment	4%	20%	15%	15%
Sales & Marketing	19%	11%	13%	14%
Hiring Employees	12%	11%	18%	14%
IT	12%	5%	10%	9%



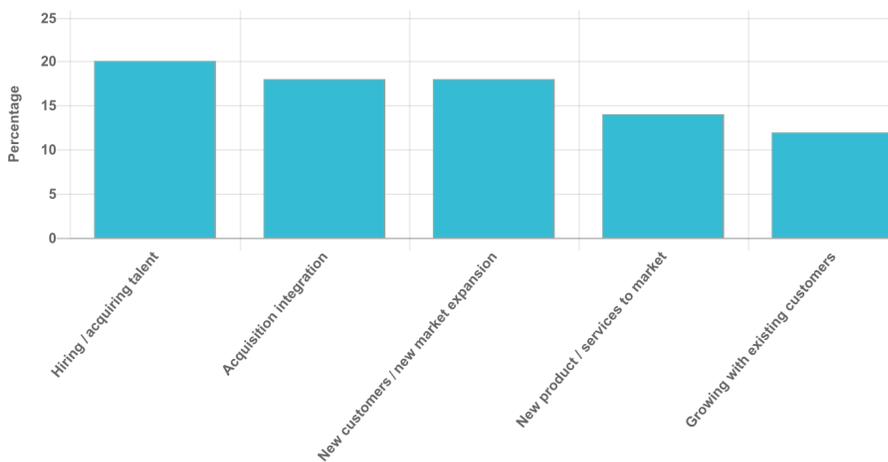


## BORROWERS: 2019 KEY TAKEAWAYS (Continued)

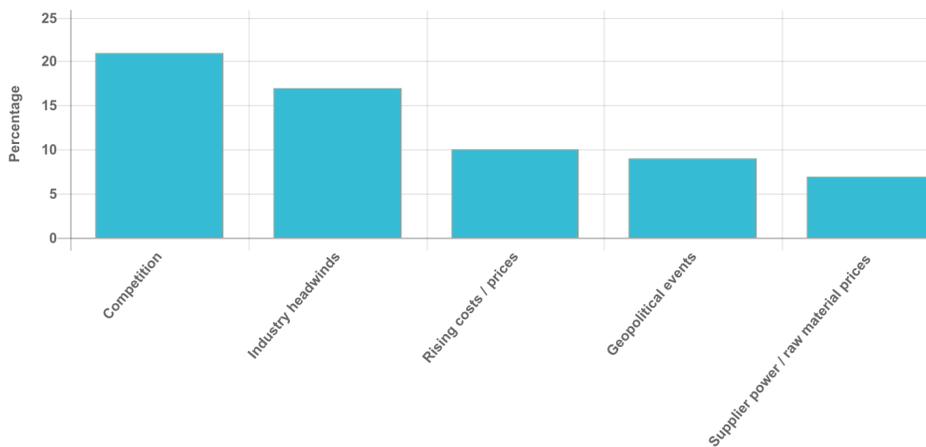
Even as the new year begins, the top external and internal challenges remain constant.

Year-over-year, the top two internal challenges for borrowers remain the same: acquisition integration and growing with existing clients. Externally, the biggest challenge remains competition, followed by industry headwinds and rising costs.

### Top Five Internal Challenges Facing Borrowers in 2019



### Top Five External Challenges Facing Borrowers in 2019





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