Antares Capital

Five *in* Five

Doug Cannaliato, co-head of Originations and responsible for Capital Markets at Antares, shares his views on the outlook for M&A activity and how Antares sources what it believes to be high-quality deals to construct resilient portfolios.

1 Why has the M&A environment remained weak throughout 2023 and the first quarter of 2024?

We have seen several reasons deal activity remained slow throughout 2023 and into 2024. Companies impacted by COVID needed to get back to steady and growing performance. Fears of a recession and uncertainty around the path for interest rates kept market participants on the sidelines while geopolitical headlines also served as a headwind. These factors caused asset valuations to contract.

2 Are these headwinds beginning to dissipate?

Yes, I'm optimistic the momentum in deal activity we saw in the first quarter of 2024 will continue and that volumes can return to more normal levels. Many companies have recovered from depressed COVID performance, and the risk of a recession has abated. Also, we expect interest rates to gradually decrease from current levels which should support increased private equity sponsor activity. So far this year, we're seeing a consistent level of moderate new deal activity compared to last year where activity was much more sporadic.

If corporate fundamentals remain strong and further clarity around the path for interest rates is achieved, we think it's possible M&A activity accelerates beyond the moderate level of activity we're seeing today. Adding to my optimism is the fact that there is over $660B* of U.S. private equity buyout dry powder that private equity firms would like to deploy. Additionally, many private equity firms, which typically hold portfolio companies for three or four years, have exceeded this average with multiple portfolio companies. If these sponsors want to raise additional funds, it's expected that they will have to start returning capital to their LPs, even if it means not having their best vintage fund.

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3 How does the increase in activity in the broadly syndicated market (BSL) potentially impact private credit and the outlook for M&A activity?

At Antares, in addition to private credit, we offer broadly syndicated solutions. A more active BSL market increases our ability to provide additional execution options, further enhancing our value proposition for sponsors.

As far as the implications for M&A and private credit, the resurgence of the BSL market will likely be a positive catalyst to help jump-start depressed sponsor-related M&A activity. As it relates to private credit, the more active BSL market has put some pressure on spreads in the upper middle and large corporate segment of the market. However, spreads in the core middle market, where Antares mainly lends, have shown more resilience and the spread premium vs. large corporate BSL spreads remains attractive. While in the near term, private credit lenders will likely give back some share gains based on price to BSL, we believe it will primarily be in the large corporate segment of the market. Overall, we feel confident the private credit market will continue to grow as the secular tailwinds that have driven the growth of the asset class remain intact.

4 So, we are transitioning to an environment where BSL and private credit coexist?

Yes, there will always be a place for broadly syndicated loans because there will always be transactions where the primary goal of the financing is to minimize costs. That said, the many benefits of private credit will continue to present a compelling value proposition to sponsors despite the potentially higher cost. Private credit solutions provide sponsors with certainty of terms, easier and faster execution as well as no ratings requirements.

It's also worth noting that larger companies, typically those that have over $100 million of EBITDA, could previously only access the BSL market but are now increasingly choosing private credit financing solutions. In our view, this reinforces the idea that cost is not the only consideration for sponsors when choosing a financing solution.

5 What is the key to consistently originating a high volume of quality deals?

It is our opinion that private credit is really a relationship business and because we've been doing this for over 25 years, our relationships with sponsors are deeply institutionalized. In fact, many of our sponsor relationships date back to the founding of the private equity firms.

As a result of our long-term market presence, we have a history of successfully partnering with sponsors and their portfolio companies through multiple business cycles. Not only do the sponsors know our Originations team, but they also know members of our Leadership team and our Investment Committee which can lead to a preferred first look at a transaction or a last look to lead the financing.

Our Originations team blankets the market, covering over 400 private equity firms to source a very large funnel of transactions. This large funnel of transactions allows us to be highly selective and construct what we believe to be diversified, highly credit-worthy portfolios.

At Antares, we typically only lend to companies that are market leaders with defensive moats, high cash flows and in recession resistant industries. Everything we do begins and ends with credit, and since we have been doing this for over 25 years, we have a highly developed credit box that we stay close to.

ABOUT *Doug Cannaliato*

Doug is co-head of Originations for Antares Capital. He leads the company's East Coast sponsor coverage activities and is also responsible for Capital Markets, Portfolio Originations, and Marketing & Communications. Doug is a member of the Antares Executive Committee.

Prior to Antares, Doug was a managing director at GE Capital, where he focused on originating, structuring, executing, and monitoring middle-market leveraged finance investments. He also completed GE's Investment Analyst program.

Doug holds a bachelor's degree in accounting from Franklin and Marshall College.

ABOUT *Antares Capital*

Founded in 1996, Antares is an experienced and cycle-tested alternative asset manager and a leading provider of financing for private equity-backed borrowers. 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 stakeholders. The firm manages $68B+ of capital under management and administration as of March 31, 2024, and 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 http://www.linkedin.com/company/antares-capital-lp. Antares Capital is a subsidiary of Antares Holdings LP, (collectively, "Antares"). Antares Capital London Limited is an appointed representative of Langham Hall Fund Management LLP, an entity which is authorized and regulated by the Financial Conduct Authority of the UK.

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