Lead Left Interview – David Brackett

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This week we chat with David Brackett, Managing Partner and Co-CEO, Antares Capital. Founded in 1996, Antares is a premier credit solutions provider to middle-market, private-equity backed companies.

[icon name="cloud-download" class="" unprefixed_class="blue"] Download Antares' Report: "2017: Leading with optimism in times of uncertainty" here

The Lead Left: David, thanks for making time for us. And congratulations to you and your partners on your 20th anniversary. That's an amazing accomplishment. So tell us what you're seeing in today's market.

David Brackett: Thanks, Randy, appreciate it. We're beginning to see a few deals backing up in the syndicated loan market. We're hearing that investors' B3 buckets are getting full. That will force them to be more discriminating between credits. You need to pick your spots. More generally, since the start of the year we've also seen some spread compression.

TLL: You certainly have a unique seat now to observe these trends.

DB: And we've seen significant shifts in those trends. The first half of last year was all about having a large hold on your balance sheet or being able to offer a unitranche option. In the second half of last year and, thus far in 2017, it's been a distribution market. You need to be able to play in *all* of these strategies.

How does the client want to execute the deal? Are they more rate-sensitive, or is it about structure? Is cov-lite an option? We help the sponsor go through their cost-benefit analysis.

TLL: So conditions are going to be choppier?

DB: It's bumpy now. It may get bumpier. Who knows? Or maybe we've hit an air-pocket and things will settle down. We tend to link the size of our investors' positions to the magnitude of our own hold levels. That provides alignment. We've been through good times and challenging ones. Right now we need to be cautious.

TLL: What are the pain points you're seeing in the market right now?

DB: Clearly investors are struggling with B3's. For the companies that are over $50 million in ebitda, we are seeing increasing numbers of cov-lite structures. It's ok in some industries, such as software providers. It's not for issuers in cyclical end markets or with complicated credit stories. We always feel the need to be very clear with sponsors about telling them what the right execution is. It may not always be good marketing, but it's our responsibility to be clear about what makes the most sense.

TLL: What do you think will be the next shoe to drop in the market?

DB: I don't know if it's the next shoe to drop but documentation trends are troubling. I'm not convinced that loan investors across the board are reviewing documents in detail. We've walked away from deals recently because we've read the fine print. Terms such as allowing second lien debt to convert to first lien, offer competing DIPs or to have the ability to object to sale procedures in bankruptcy. We've also heard about first lien lenders being required to provide written notice to the borrower before being able to execute our stock pledge. These violate fundamentals of senior secured lending and they are not theoretical.

TLL: So David, it's been two years since the acquisition by Canada Pension Plan Investment Board. Where are you in your evolution today?

DB: We've found CPPIB to be an experienced investor, ready to respond quickly to changing markets. For example, when markets cramped up early in 2016, CPPIB invested nearly $1 billion alongside us across eight transactions. They also encouraged us to meaningfully increase our hold levels. That was a very helpful message. They think long term and are clearly in it for the long haul. That was also highlighted when they brought in Northleaf Capital as an investor. Growing our asset management business has been a strategic priority. We've registered as an Investment Advisor and have had some great traction with investors, including a large sovereign wealth fund with whom we have a multi-billion dollar co-investment relationship.

TLL: What is the arrangement with Northleaf?

DB: They manage money across a series of asset classes – infrastructure, private equity, and private debt. Their capital comes from a global mix of pension funds, endowments, family offices, all with a long-term view. In addition to owning a stake in Antares, Northleaf leverages our deal flow to provide their investors with private debt opportunities allowing us to speak for even larger positions. Northleaf's investment provided validation of CPPIB's position in Antares and confirmed our role as one of the sector's leading credit managers.

TLL: Tell me about your incremental fundraising and partnership opportunities?

DB: We are finding all sorts of opportunities and since CPPIB's purchase we have experienced a steady flow of inquiries. As you know, investors are being drawn to the middle market due to the attractive risk/return characteristics. Our goal is not just to find investors, but the right investors. We also need to balance investors' appetite with CPPIB's desire to deploy capital on our own balance sheet so they can meet their asset allocation objectives. We find ourselves in a very attractive position.

TLL: What's the firm's philosophy on corporate leverage?

DB: We're an investment grade borrower so we want to do right by our lenders and the rating agencies. We plan to be a regular issuer of CLOs and are evaluating other means to diversify our funding. As we're nearing completion of our operational transition, we are beginning to focus more thought on our long-term funding plans. We are beginning to meet with our bankers to hear their perspectives and to begin to evaluate various options.

To be continued the week of May 22

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