

Lead Left Interview – David Brackett (Part 2)

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This week we continue our conversation 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. *Second of two parts* – [View part one](#).

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TLL: *What about a BDC?*

David Brackett: They certainly have been a mixed bag. Private BDCs appear to be the better route these days but at this point we're still early in the process of analyzing the opportunity. It's an alternative funding model so I'm sure we'll develop a more thoughtful perspective as we sort through options down the road.

TLL: *What has been your biggest surprise this year?*

DB: Well, I'd say it was the optimism we saw at the beginning of the Trump presidency. Following the 2016 presidential election, we surveyed our portfolio companies, sponsors and investors to get their views on topics such as the economy, M&A activity and market dynamics. All three groups were consistent in feeling good about where things were headed, despite a fair amount of uncertainty in global markets, the fact that we live in a volatile world, and that we're late in the cycle. It would be interesting to go back and interview them now.

TLL: *Do you worry about the non-banks that don't have real middle market experience? Shouldn't there be a warning, like on the TV car ads: "Professional driver on a closed track."*

DB: That's a great analogy. I do worry about the number of new entrants into our space. We welcome experienced, knowledgeable players but are finding that's not always the case. When we do documentation with some of them, they're not always paying attention. They haven't lived in the middle market.

TLL: *Is the documentation universally loose?*

DB: No. Overall terms in the middle market remain fairly consistent. We do see some situations when large cap terms migrate down market. For the most part they involve some of the mega firms who are used to dealing with \$200 million ebitda borrowers and seek the same terms for \$10 million to \$20 million ones. Since they plan to aggressively grow the platform through acquisitions and have earmarked hundreds of millions of equity to do so, they need a flexible document. We try to work with them as we know that if the business stays at \$15 million ebitda, for them it's been a flaming failure.

TLL: *What percent of your flow is new deals vs. add-ons?*

DB: Year to date the new platform mix is 22% of the 69 deals we've closed. Historically it's been closer to 50/50. We did nearly 270 transactions all of last year, so we're on about the same pace. Growth for our core loan

book was over 20% last year. While capital markets activity is up this year, the book is flat as we aren't finding as many new platforms and there has been a wave of refinancings.

TLL: What's your pipeline looking like?

DB: We have about 145 active deals in the pipeline; exactly the same as last year. Dead flat. Recall last year M&A got off to an anemic start and while this year is better, it's below our expectations. We wonder if the uncertainty around changes to the tax code are causing sellers to hold off on bringing deals to market.

TLL: How about the portfolio? How's it behaving?

DB: Overall we're seeing on average 10% revenue growth and 9.5% ebitda growth, so certainly no signs of a slow down. Of course, some of that growth is acquisition-related, but the core growth is up. Year to date, anecdotally, the performance is good.

TLL: Do you worry about some sectors, like healthcare?

DB: We wake up every day like it's the bottom of the ninth. We inherently avoid cyclical and capital intensive companies. We've also seen borrowers whipsawed by commodities. It's all about sticking to the fundamentals of credit. More broadly, we also worry about all the games being played with add-backs. They're significant now.

As for healthcare, we feel good about it due to the long-term trends. While there is uncertainty around the form of the next comprehensive plan there continue to be sound plays in several areas. In particular, any business which focuses on making the system more efficient such as software enabled services.

TLL: What's your favorite add-back?

DB: "We have a customer win! A new contract! Let's add the incremental income!" Yes, but won't you *lose* any customers? My latest favorite was called the "plant manager" add-back. The CIM described a long list of mistakes supposedly made by the plant manager that led to inefficiencies and bloated costs, so let's add that back. Wait a minute, where was senior management when that was happening?

TLL: Love that. So David, what keeps you motivated after twenty years?

DB: It's about building a business! We've hired roughly 100 people over the last twelve months. We've been extremely pleased with the tremendous quality of talent across the board. We're all learning and stretching. We're also building a strong culture. At GE, we used to be more compartmentalized. Now it's about the entire organization succeeding. It feels good to be rowing in the same direction. We've also been gratified by the continuing support of our customers and investors. They've been great and share our excitement about the new organization.

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