

MIDDLE MARKET LENDER OF THE YEAR: GE Antares

GE Antares Builds Scale As Other Lenders Around it Crumble

SNAPSHOT:

Firm: GE Antares

Office Locations: Chicago, New York, San Francisco

Number of Professionals: 100

Products: Senior Loans, Unitranche Funds, Junior Debt Fund, Equity Capital

It sure didn't start out looking this way, but 2007 turned out to be a gigantic inflection point for mid-market senior lenders.

The first half of the year kept up the heady pace of 2006, and new entrants piled into the market for providing senior loans. By the second half of 2007, however, the market cratered, and many of the new players departed for the sidelines.

Most lenders did everything they could merely to survive. One lending house, however, actually found room to build: **GE Antares**, the Chicago-based unit of GE Inc. that specializes in providing acquisition credit for financial sponsors. Tied to a AAA-rated, multibillion balance sheet, mid-market specialist GE Antares actually got bigger, expanding its lines of business and snapping up a big player in the market, Merrill Lynch Capital.

In 2007, among lenders backing U.S.-based financial sponsors, GE led the league tables for arranging loans of \$225 million or less, according to Reuters Loan Pricing Corp. Of the \$7.1 billion that GE arranged, the Antares division accounted for the vast majority, said **David Brackett**, a senior managing director and one of the firm's founders.

Only JP Morgan gave GE Antares much competition in terms of loan volume. In terms of the number of deals arranged, GE Antares took the lead on nearly 50 percent more deals than the second-place firm, Bank of America, according to Reuters Loan Pricing Corp. Even after considering that loan origination tailed off dramatically during the third and fourth quarters of 2007, GE Antares still increased its year-over-year loan volume by 25 percent.

Just by staying alive, lenders differenti-

ated themselves from the field in the final six months of 2007. In the case of GE Antares, its ability to thrive meant that the firm became every sponsor's best friend.

"As everyone else retreats, it gives us visibility with new groups and deepens our relationships with existing sponsors," Brackett said.

In fact, at a time when most lenders in the middle market were digging trenches to wait out the shelling, GE Antares and its parent continued to build its middle-market business. The biggest coup came in December, when GE made official the rumor that it would buy the mid-market lending

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Why The Firm Won

- In a market where lenders receded by the day, GE Antares remained a constant, reliable presence in the middle-market.
- The division blew away the competition for financial sponsor-backed senior loans of less than \$225 million.
- The lending unit expanded its capabilities by joining with Allied Capital to form a unitranche fund.
- GE Antares furthered its commitment to the middle market through its acquisition of the No. 3 player, Merrill Lynch Capital.

division of Merrill Lynch. That investment bank, buffeted by write-downs in its fixed-income division, sold off the lending unit to raise approximately \$1 billion in cash. The deal, which closed in February 2008, instantly catapulted GE Antares far beyond its mid-market lending peers.

"It underscores GE Antares's commitment to the mid-market sponsor space," Brackett said.

Also in December, GE Antares joined forces with business development company Allied Capital Corp. to back a \$3.6 bil-

lion unitranche fund. As a corporation, GE does not originate junior debt (mezzanine or second-lien loans), and as a result GE Antares was losing business to BDCs and other lenders capable of providing increasingly popular one-stop financings that span the capital structure. With Allied picking up the junior debt portion of the debt agreements and GE Antares holding the senior tranches, GE is now able to get into the game.

"This really addresses today's uncertain environment," Brackett said. "There is no syndication risk for the sponsor."

The creation of that fund came a year after GE teamed up with Northwestern Mutual Life to create a subordinated-debt vehicle called the Quentin Road Fund. The \$1.2 billion fund will invest alongside GE Antares's senior-debt offerings.

GE Antares has also diversified itself geographically. Aside from three offices in Chicago, New York and San Francisco, the firm has representatives in Dallas and Los Angeles. And thanks to GE's global footprint, it can follow a sponsor client such as Sun Capital when the LBO shop does a deal in Japan.

Likewise, because GE has its hands in virtually every kind of industry, from energy to health care to chemicals, GE Antares can call on its corporate brethren to fill out gaps in knowledge. GE Antares even invites executives from sponsors and their portfolio companies to GE's training facility to learn the latest techniques in, say, lean production. By 2007, GE Antares had established relationships with 150 different sponsors, a list that will undoubtedly grow as the number of active lenders dwindles further in 2008.

When GE bought Antares in 2004, it wasn't clear how much the lender would be absorbed into the corporation and denied the freedom to roam. There were concerns from sponsors that a deal's terms would change as the credit agreement moved its way up the multinational's decision tree. Instead, Brackett said, it's been a happy marriage between an entrepreneurial outfit and deep-pocketed backer.

"We've been pleasantly surprised at how well this has worked," he said. "GE understands that sponsor finance isn't about the deal but is about the long-term relationship."—J.H.