Convertible Issuance in the Pandemic

With the onset of COVID-19 and the resultant economic shutdowns across the globe, a number of issuers from different industries sought financing in the convertible market. In many cases, over the course of the spring and extending into September, issuers' underlying businesses remained closed, with little to no operations and incoming revenue. The result was growing operating cash flow burn rates. In other cases, certain manufacturing companies were deemed essential businesses and allowed to operate, but with restrictions that made operating performance well below normal levels. The results of these changes were a need for liquidity bridges, and companies often turned to convertibles to provide those bridges. This demonstrates Advent's long-standing belief that the convertible market serves as an important vehicle for financing in times of need.

Middleby Corporation

One industry clearly and dramatically impacted by COVID-19 was global food service, which includes the restaurant and food-processing industry. Across all segments, from traditional dining facilities that include national chains to smaller individual family-owned restaurants, the industry was closed to in-person dining. Exceptions were made for take-out orders and, later, limited outdoor dining. This also impacted other businesses, including hotels, schools, and commercial establishments.

Middleby Corporation develops, manufacturers, markets and services a broad line of food service equipment, with over 100 brands in the commercial food service, food processing, and residential kitchen equipment industries. In its 2019 fiscal year, Middleby generated $2.9 billion in revenue, adjusted EBITDA of $638 million, and free cash flow of $331 million[1]. Each of these aforementioned end markets is growing, but Middleby's revenues reflect less than 5% of the total food service equipment market[2]. Importantly, the company acts as a consolidator in these end markets. Middleby has completed 71 acquisitions since 2001, including 17 over the last 2 years[3].

When the pandemic hit, Middleby customer order rates declined 65%, 55% and 39% year-over-year during April, May, and June, resulting in a decline of 49% in second quarter 2020 commercial food service revenues year-over-year[4]. In response, Middleby issued a $747 million 1.0% Senior Convertible Note due in 2025 in August 2020. Prior to this transaction, Middleby's liquidity included $800 million in cash and $1.1 billion of undrawn capacity under its $2.7 billion revolver. Although the company holds adequate reserves, this additional liquidity provides Middleby with further optionality around its operational and strategic acquisition strategy while the consumer returns to restaurants and the economy heals.

ADVENT
CAPITAL MANAGEMENT, LLC

Why Advent?

- **Over 23 years of global investment experience and a robust research platform makes it well positioned to navigate the convertible and high-yield asset classes.**
- **Convertible bonds' embedded options provide exposure to volatility and can benefit from an increase in market gyrations, both up and down.**
- **Advent's institutional expertise in managing convertibles and high yield is accessible to individual investors through the Advent Convertible and Income Fund (AVK).**

Though Middleby's interim financial results were initially challenged, the issuance of the convertible provides growth capital as the company maintains its operations and grows into an expanding market. This demonstrates the value of convertible bond issuance. Its speed of execution during a crisis provided an integral organization capital to maintain its production while enabling it to expand over the longer term.

1 Middleby press release, February 26, 2020. **2** Advent Capital Management estimate. **3** Middleby net roadshow materials, August 2020. **4** Middleby Second quarter 2020 earnings release, August 5, 2020.

As of 9.30.2020, Advent Convertible and Income Fund (AVK) has 0.18% of its portfolio allocated to Middleby Corporation.

Net asset value (NAV) is the value of all fund assets (less liabilities) divided by the number of common shares outstanding. Market price is the price at which a fund trades on an exchange. Shareholders purchase and sell closed-end funds at the market price, not NAV. A closed-end fund's premium/discount valuation is calculated as market price minus NAV, divided by NAV.

General Risk Warnings Investments in fixed-income instruments are subject to the possibility that interest rates could rise, causing their values to decline. High yield and unrated debt securities are at a greater risk of default than investment grade bonds and may be less liquid, which may increase volatility. Convertible securities may not be suitable for all investors. Although all markets are prone to change over time, the generally high rate at which convertible securities are retired (through mandatory or scheduled conversions by issuers or through voluntary redemptions by holders) and replaced with newly issued convertibles may cause the convertible securities market to change more rapidly than other markets. For example, a concentration of available convertible securities in a few economic sectors could elevate the sensitivity of the convertible securities market to the volatility of the equity markets and to the specific risks of those sectors. Moreover, convertible securities with innovative structures, such as mandatory-conversion securities and equity-linked securities, have increased the sensitivity of the convertible securities market to the volatility of the equity markets and to the special risks of those innovations, which may include risks different from, and possibly greater than, those associated with traditional convertible securities. A convertible security may be subject to redemption at the option of the issuer at a price set in the governing instrument of the convertible security. If a convertible security held by the fund is subject to such redemption option and is called for redemption, the fund must allow the issuer to redeem the security, convert it into the underlying common stock, or sell the security to a third party. As a result of the conversion feature, convertible securities typically offer lower interest rates than if the securities were not convertible. During periods of rising interest rates, it is possible that the potential for capital gain on convertible securities may be less than that of a common stock equivalent if the yield on the convertible security is at a level that would cause it to sell at discount. Also, in the absence of adequate anti-dilution provisions in a convertible security, dilution in the value of the fund's holding may occur in the event the underlying stock is subdivided, additional securities are issued, a stock dividend is declared, or the issuer enters into another type of corporate transaction which increases its outstanding securities.

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