

# Rand Capital Announces Third Quarter 2019 Results

- ***Net Asset Value per share was \$4.39 at September 30, 2019***
- ***Received approval from U.S. Small Business Administration, plan for East transaction closing in November***
- ***Board renewed and increased share buyback authorization***

BUFFALO, N.Y.--(BUSINESS WIRE)-- [Rand Capital Corporation](#) (Nasdaq: RAND) (“Rand” or “Rand Capital”), a business development company, announced its results for the quarter and nine months ended September 30, 2019.

Allen F. (“Pete”) Grum, President and Chief Executive Officer of Rand Capital, commented, “We are pleased to have received approval from the SBA, which was the final regulatory approval required to close on our transaction with East Asset Management (“East”). Having received that approval, we anticipate closing the transaction in November. The closing of this transformational transaction culminates approximately two years of work and we look forward to continuing our path forward with East. In the coming months, our Board and management will make best efforts to continue the steps to transform Rand into a regulated investment company (“RIC”) and complete the anticipated special dividend outlined in our proxy statement for the special shareholders meeting which was held in May.”

He noted, “We were disappointed with our third quarter financial results, as reflected in the decrease in our NAV. Investing in small and growing businesses and valuing them on a quarterly basis is complex. The valuation changes we recorded for several of our portfolio companies this quarter were unrealized and we believe that, over time, the companies can fulfill their potential and we may see reversals of some of those unfavorable valuation adjustments that were taken this quarter.”

Mr. Grum added, “We curtailed our investment activity over the past 18 months as we completed the requirements of the East transaction, including pursuit of the SBA approval. We now expect to increase our investment activity, utilizing the additional capital from the East transaction and our historically high cash balances in our SBIC subsidiary. We currently have \$1.47 per share in cash and will substantially increase that balance after closing on the East transaction. Additionally, the Board renewed and increased our longstanding share repurchase program. With the increased cash from the East transaction, buying back shares is a viable option.”

## Third Quarter 2019 Financial Highlights

- Reported \$4.39 net asset value (NAV) per share at September 30, 2019, compared with \$4.85 at June 30, 2019. The sequential decrease was primarily due to net depreciation in five portfolio investments in accordance with the Company’s valuation policy.
- At September 30, 2019, portfolio fair value was \$26.8 million and consolidated cash

was \$9.3 million, or \$1.47 per share, with \$1.2 million available for corporate purposes and \$8.1 million in the SBIC.

Total investment income in the third quarter of 2019 was \$437,000, compared with \$662,000 in the same period last year. Last year's quarter included approximately \$233,000 of nonrecurring interest and debt modification fee income generated from a portfolio company loan restructuring. Total expenses in the 2019 and 2018 third quarters were \$531,000 and \$448,000, respectively. Higher expenses were due primarily to the East transaction as well as more interest expense on higher outstanding debt.

The Company recorded pre-tax net unrealized depreciation of \$3.6 million in the third quarter of 2019 compared with \$476,000 positive change in pre-tax unrealized depreciation in the same quarter of 2018. Rand also recorded a \$1.1 million realized pre-tax loss during the prior-year third quarter.

Total investment income increased 21% to \$1.7 million for the nine months ended September 30, 2019, compared with \$1.4 million in the same 2018 period. The growth resulted from the Company's investment focus on income-generating instruments as well as variations in nonrecurring investment income in each period. Total expenses for the first nine months of 2019 and 2018 were \$2.0 million and \$1.5 million, respectively, with the increase primarily related to the East transaction process.

Pre-tax realized losses were \$392,000 in the first nine months of 2019 and \$1.1 million in the same 2018 period. The 2019 loss primarily resulted from Rand's investment in a company that ceased doing business during the second quarter of 2019, reflecting a reclassification of an unrealized loss previously recorded. Pre-tax net unrealized depreciation on investments was \$4.2 million and \$732,000 in the first nine months of 2019 and 2018, respectively.

### **Selected Portfolio Highlights**

- [\*\*ACV Auctions, Inc.\*\*](#), is the leading dealer-to-dealer, online automotive marketplace that strives to be the trusted way that dealers source their wholesale vehicles. The company recently launched new tools and features that it believes will further increase efficiency for dealers buying and selling on the online ACV platform: 1) Their new Run List provides access to certain auctions before they go live, enabling dealers to bid in a way that fits their schedule. The dealer's bid will automatically go into effect once the auction becomes live. 2) Enhancements to filters are optimizing the time dealers spend on the platform so they can find the exact dealer they want quickly and easily. 3) Proxy bids have been enhanced, allowing for both standard and persistent proxy bids. These features also optimize the time spent in the app, generating more views and bids. 4) ACV recently launched Virtual Lift™, the industry's first mobile vehicle undercarriage imaging tool. The portable, lightweight, low profile device utilizes ACV's proprietary mobile hardware and software technology to provide a full bumper-to-bumper view and image of the vehicle's undercarriage in less than one minute. Virtual Lift™ elevates the level of trust and transparency in the ACV Auctions online marketplace. Since its establishment in 2015, ACV has experienced rapid growth and now operates in 138 territories from coast-to-coast. Rand's initial \$163,000 investment in 2016 has a fair market value of \$2.8 million at September 30, 2019.
- [\*\*Carolina Skiff, LLC\*\*](#) is a leading manufacturer of high quality, versatile outboard boats, including the #1 fiberglass outboard brand within their size range. The company

recently undertook a comprehensive refresh of its product line, developing a more linear series of boats with advanced features and functionality in response to evolving consumer preferences. In mid-2019, Carolina Skiff launched an industry-leading 18 new models for the 2020 model year, featured at a dealer showcase at one of its facilities in Georgia. In alignment with their slogan – Family. Fishing. Fun. – the new models provide boat enthusiasts with turnkey options to simplify the buying process while delivering reduced lead times. Offering more than 60 models through its established footprint of 94 dealers across 23 states, Carolina Skiff boats provide the most features and the best functionality available on the market. Rand initially invested in Carolina Skiff in 2004 and its investment currently carries a cost of \$15,000. The company's strong financial performance has resulted in the investment carrying a fair market value of \$1.8 million in Rand's portfolio as of September 30, 2019.

As of September 30, 2019, Rand's portfolio consisted of 28 active companies. At that date, the portfolio was comprised of approximately 67% in equity investments and 33% in debt investments, compared with 57% in equity investments and 43% in debt investments at September 30, 2018. The change was attributable to the repayment of a large loan by a portfolio company in 2019.

### **Renewed and Increased Share Buyback Authorization**

Rand's priority for allocating capital continues to be investment in its portfolio. Also, the Board of Directors has renewed and increased the Company's share repurchase program by authorizing up to an additional 1,000,000 shares of Rand common stock through October 25, 2020.

### **Webcast and Conference Call**

Rand will host a conference call and live webcast today, November 7, 2019, at 2:30 p.m. Eastern Time to review its financial condition and results for the 2019 third quarter, as well as its strategy and outlook. The review will be accompanied by a slide presentation, which will be available on Rand's website at [www.randcapital.com](http://www.randcapital.com) under the "Investor Relations" heading. A question-and-answer session will follow the formal presentation.

Rand's conference call can be accessed by calling (201) 689-8263. Alternatively, the webcast can be monitored on Rand's website at [www.randcapital.com](http://www.randcapital.com) under the "Investor Relations" heading.

A telephonic replay will be available from 5:30 p.m. ET on the day of the call through Thursday, November 14, 2019. To listen to the archived call, dial (412) 317-6671 and enter replay pin number 13694913. The webcast replay will be available in the Investors section at [www.randcapital.com](http://www.randcapital.com), where a transcript will also be posted once available.

### **ABOUT RAND CAPITAL**

Rand Capital (Nasdaq: RAND) is a Business Development Company (BDC) with a wholly-owned subsidiary licensed by the U.S. Small Business Administration (SBA) as a Small Business Investment Company (SBIC). Rand currently focuses its equity investments in early or expansion stage companies and generally lends to more mature companies. The Company seeks investment opportunities in businesses with strong leaders who are bringing

to market new or unique products, technologies or services that have a high potential for growth. Additional information can be found at the Company's website where it regularly posts information: <https://www.randcapital.com/>.

### **Safe Harbor Statement**

This press release contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements, other than historical facts, including but not limited to statements regarding the expected timing of the closing of the proposed transactions; the ability of the parties to complete the proposed transactions considering the various closing conditions, including approval from the U.S. Small Business Administration ("SBA"); the intention of Rand Capital and Rand Capital SBIC, Inc. ("Rand SBIC") to elect to be taxed as a regulated investment company for U.S. federal tax purposes; the intention to declare and pay a special cash and stock dividend after the closing of the proposed transactions; the intention to pay a regular cash dividend after the completion of the proposed transactions; the expected benefits of the proposed transactions such as a lower expense-to-asset ratio for Rand Capital, increased net investment income, availability of additional resources, expanded access to and sourcing platform for new investments and streamlining of operations under the external management structure; the business strategy of originating additional income-producing investments; the competitive ability and position of Rand Capital following completion of the proposed transactions; and any assumptions underlying any of the foregoing, are forward-looking statements. Forward-looking statements concern future circumstances and results and other statements that are not historical facts and are sometimes identified by the words "may," "will," "should," "potential," "intend," "expect," "endeavor," "seek," "anticipate," "estimate," "overestimate," "underestimate," "believe," "could," "project," "predict," "continue," "target" or other similar words or expressions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove to be incorrect, actual results may vary materially from those indicated or anticipated by such forward-looking statements. The inclusion of such statements should not be regarded as a representation that such plans, estimates or expectations will be achieved. Important factors that could cause actual results to differ materially from such plans, estimates or expectations include, among others, (1) that one or more closing conditions to the stock purchase may not be satisfied or waived, on a timely basis or otherwise, including that the SBA may not approve the proposed transactions; (2) the risk that the proposed transactions may not be completed in the time frame expected by parties, or at all; (3) the risk that Rand Capital and/or Rand SBIC may be unable to fulfill the conditions required in order to elect to be treated as a regulated investment company for U.S. tax purposes; (4) uncertainty of the expected financial performance of Rand Capital following completion of the proposed transactions; (5) failure to realize the anticipated benefits of the proposed transactions, including as a result of delay in completing the proposed transactions; (6) the risk that the board of directors of Rand Capital is unable or unwilling to declare and pay the special cash and stock dividend or pay quarterly dividends on a going forward basis; (7) the occurrence of any event that could give rise to termination of the stock purchase agreement; (8) the risk that shareholder litigation in connection with the proposed transactions may affect the timing or occurrence of the contemplated transactions or result in significant costs of defense, indemnification and liability; (9) evolving legal, regulatory and tax regimes; (10) changes in general economic and/or industry specific conditions; and (11) other risk factors as detailed from time to time in Rand Capital's reports filed with the Securities and

Exchange Commission (“SEC”), including Rand Capital’s annual report on Form 10-K for the year ended December 31, 2018, later filed quarterly reports on Form 10-Q, the definitive proxy statement for the proposed transactions and other documents filed with the SEC. Consequently, such forward-looking statements should be regarded as Rand Capital’s current plans, estimates and beliefs. Except as required by applicable law, Rand Capital assumes no obligation to update the forward-looking information contained in this release.

FINANCIAL TABLES FOLLOW.

**Rand Capital Corporation and Subsidiary  
Consolidated Statements of Financial Position**

**ASSETS**

Investments at fair value:

Control investments (cost of \$0 and \$99,500,  
respectively).....

Affiliate investments (cost of \$20,427,536 and \$20,708,659,  
respectively).....

Non-Control/Non-Affiliate investments (cost of \$14,182,282 and \$17,483,984,  
respectively).....

Total investments, at fair value (cost of \$34,609,818 and \$38,292,143,  
respectively).....

Cash and cash equivalents

.....  
Interest receivable (net of allowance of \$166,413 and \$161,000,  
respectively).....

Deferred tax  
asset.....

Prepaid income  
taxes.....

Other  
assets.....

**Total  
assets**.....

**LIABILITIES AND STOCKHOLDERS’ EQUITY (NET ASSETS)**

**Liabilities:**

Debentures guaranteed by the SBA (net of debt issuance costs)  
.....

Profit sharing and bonus  
payable.....

Accounts payable and accrued  
expenses.....

Deferred  
revenue.....  
    Total  
    liabilities.....

**Stockholders' equity (net assets):**

Common stock, \$0.10 par; shares authorized 10,000,000;  
shares issued 6,863,034;  
    shares outstanding of 6,321,988 at 9/30/19 and  
    12/31/18.....  
Capital in excess of par  
value.....  
Accumulated net investment  
loss.....  
Undistributed net realized gain on  
investments.....  
Net unrealized depreciation on  
investments.....  
Treasury stock, at cost: 541,046  
shares.....  
    Total stockholders' equity (net assets) (per share - 9/30/19: \$4.39; 12/31/18:  
    \$4.99).....  
**Total liabilities and stockholders' equity (net  
assets).....**

**Rand Capital Corporation and Subsidiaries  
Consolidated Statements of Operations  
(Unaudited)**

**Investment income:**

Interest from portfolio companies:  
    Affiliate investments.....  
    Non-Control/Non-Affiliate  
    investments.....  
    Total interest from portfolio companies.....  
Interest from other investments:

Non-Control/Non-Affiliate  
investments.....

—

Total interest from other investments.....

—

Dividend and other investment income:

Affiliate investments.....

Non-Control/Non-Affiliate  
investments.....

—

Total dividend and other investment income.....

—

Fee income:

Affiliate investments.....

Non-Control/Non-Affiliate  
investments.....

—

Total fee income.....

—

**Total investment  
income.....**

—

**Expenses:**

Salaries.....

Employee  
benefits.....

Directors'  
fees.....

Professional  
fees.....

Stockholders and office  
operating.....

Insurance.....

Corporate  
development.....

Other operating  
.....

—

Interest on SBA  
obligations.....

Bad debt (recovery) expense.....	—
Total expenses.....	—
<b>Net investment (loss) gain before income taxes.....</b>	—
Income tax (benefit) expense.....	—
<b>Net investment (loss) gain.....</b>	—
<b>Net realized (loss) gain on sales and dispositions of investments:</b>	
Control investments.....	—
Affiliate investments.....	—
Net realized loss on sales and dispositions before income taxes.....	—
Income tax (benefit).....	—
Net realized loss on sales and dispositions of investments.....	—
<b>Net change in unrealized depreciation or appreciation on investments:</b>	
Affiliate investments.....	(1)
Non-Control/Non-Affiliate investments.....	(1)
Change in unrealized depreciation or appreciation before income taxes.....	(3)
Deferred income tax (benefit) expense.....	—
Net change in unrealized depreciation or appreciation on investments.....	(2)
<b>Net realized and unrealized loss on investments.....</b>	<u>(2)</u>
<b>Net decrease in net assets from operations.....</b>	<u>(2)</u>
<b>Weighted average shares outstanding.....</b>	(
<b>Basic and diluted net decrease in net assets from operations per share.....</b>	—

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Source: Rand Capital Corporation