



**Operator:** Greetings, and welcome to the Rand Capital Corporation Third Quarter 2021 Financial Results Conference Call. [Operator Instructions] As a reminder, this conference is being recorded.

I would now like to turn the call over to Craig Mychajluk, Investor Relations. Thank you. You may begin.

**Craig Mychajluk:** Thank you, Darryl, and good afternoon, everyone. We appreciate your interest in Rand Capital and for joining us today for our third quarter 2021 financial results conference call. Here with me today are Pete Grum, our Chief Executive Officer; and Dan Penberthy, our Executive Vice President and Chief Financial Officer.

You should have a copy of the release that crossed the wires this morning as well as our slides that accompany our conversation today. If not, they are available on our website, at [randcapital.com](http://randcapital.com).

If you are following along in the slide deck, please turn to **Slide 2**. I'd like to point out some important information around our safe harbor. As you are aware, we may make some forward-looking statements during this presentation and during the question-and-answer session. These statements apply to future events that are subject to risks and uncertainties as well as other factors that could cause actual results to differ from where we are today. You can find a summary of these risks and uncertainties and other factors in the earnings release as well as other documents filed by the company with the Securities and Exchange Commission. These documents can be found on our website or at [sec.gov](http://sec.gov).

During today's call, we'll also discuss some non-GAAP measures. We believe that these will be useful in evaluating our performance. You should not consider the presentation of this additional information in isolation or as a substitute for results in accordance with GAAP. We've provided reconciliations of non-GAAP measures with comparable GAAP measures in the tables that accompany today's release and in the slides.

So, with that, if you'll turn to **Slide 3**, and I'll hand the discussion over to Pete to begin. Pete?

**Pete Grum:** Thank you, Craig. Good afternoon, everyone. Before we get into the financials and our results, I want to take a moment to acknowledge that yesterday, November 4, marked 50 years of Rand Capital trading on the NASDAQ. We were one of the inaugural group of people that traded on there. We celebrated this milestone earlier this year by ringing the closing bell at the exchange. I have proudly served as CEO for 25 of these years, a period in which we've transformed Rand from a small venture capital business to a growing dividend-paying business development company.

As part of my planned retirement, we announced about 2 weeks ago our leadership and board transition that I believe will allow us to continue to execute on the strategic plan. Effective December 1, Dan will take over as President and CEO, and Margaret Brechtel, our VP of Finance, will be promoted to Executive Vice President and CFO and will also be the Treasurer and Secretary of the company. Additionally, Robert Zak will succeed Erkie Kailbourne as Board Chair.

It has been my honor to serve as CEO for the last 25 years, and I will continue as Vice Chair of the Board. I look forward to supporting Dan and Margaret as they continue our strong legacy and take Rand to the next level.

The success of our strategy to transform Rand into an income-producing business development company is evident in our results. We continue to move our portfolio from equity investments



into income-producing investments. As a BDC, we intend to drive investment income and grow our shareholder dividends.

Let's turn to **Slide 5** and we will get into our results. For the quarter, our total investment income grew by 37% over the prior year period, to \$1 million. Net asset value per share of \$23.31 was also up 4% sequentially and 31% for the year-to-date period.

The sequential increase largely reflects the realized gain from the sale of our equity positions in Centivo Corporation and an increase in unrealized appreciation of our investment in Tilson Technology, offset by a reduction of ACV Auctions. This increase from year-end was mostly due to the fair market value increases in investments in Open Exchange, Tilson Technology and ACV Auctions.

As previously announced, at the end of September, we exited our position in Centivo, a health care company in which Rand originally invested in 2018. As a result, we recognized a gain of \$1.6 million during the third quarter. This is consistent with our strategy to exit our equity positions when opportunities exist and reinvest those proceeds into income-producing vehicles.

During the quarter, we incurred \$454,000 of capital gains incentive fee accruals, which were primarily a result of the realized gain from the sale of Centivo and an increase in unrealized appreciation, mostly related to Tilson.

As a result, we reported GAAP net investment income of \$0.02 per share. Excluding this capital gains incentive fee accrual, adjusted net investment income was \$0.20 per share compared with \$0.11 per share in last year's period.

We paid our regular quarterly dividend of \$0.10 per share during the third quarter, and so far this year, we have paid to shareholders \$1.63 per share in dividends, including \$1.33 per share that was paid in January.

After the quarter close, we have paid off our \$11 million SBIC loan, with the intent to simplify our regulatory, lending and portfolio reporting process. Our \$15 million in highly liquid BDC and ACVA stock and the continued liquidity of Rand's legacy investment portfolio is expected to provide the near-term capital for our investments. Ultimately, we believe our actions will provide more investment capital to drive our growth.

If you turn to **Slide 6**, we can discuss the progress we have made regarding the evolution of our investment portfolio to support our strategy. The 55% increase in fair value this year reflects valuation adjustments and new investments, offset by sales and payoffs. At quarter-end, our 34 portfolio companies were comprised of approximately 40% in fixed-rate debt investments, 35% in equity investments, 16% in ACV stock and 9% in dividend-paying publicly traded BDCs.

During the quarter, we made one new investment of \$3.8 million and received \$3.8 million from the one exit we discussed and other loan repayments transactions highlighted on **Slide 7**. The investment was in Dealer Solutions & Design, or DSD, and it totaled \$3.8 million, consisting of \$2.7 million in 12% term notes and \$1.1 million in equity. DSD is a proven leader in fixed-operation design, development and equipment specifications and installations as well as a project manager for auto dealers.

On the bottom half of this slide, there is a list of the exits and payouts. We sold 50,000 shares of ACV during the quarter, at an average price of \$19.44 per share, for total proceeds of \$972,000. This represented a gain of approximately \$958,000. As a reminder, any proceeds for us above our \$163,000 initial investment will be a capital gain and treated as such as it relates to any dividend or distribution. At quarter-end, our ACV holdings consisted of 540,580 shares of Class A common stock, which is freely tradeable.



The charts on **Slide 8** illustrate the diversity of our portfolio and the change in industry mix since 2020 year-end. With the investment we recently made, the impact of exits and fair value changes, professional services and automotive saw notable changes, while most of the other industries were relatively consistent, within a point or two. We like the diversity of our portfolio and believe it reduces our exposure to market risks.

**Slide 9** lists our top 5 portfolio companies at quarter-end, which represent more than half of our total portfolio assets. These 5 are the same as the second quarter ranking, although Tilson moved up to the second spot after a fair value adjustment during the third quarter based on a significant equity financing the company received. ACV maintained the top spot, though its fair value came down \$4.3 million during the quarter. Their valuation in our portfolio represents 16% of our net assets.

With that, I'm going to turn it over to Dan to review our financials in greater depth.

**Dan Penberthy:** Thanks, Pete, and good afternoon, everyone. **Slide 11** provides an overview of our financial summary and our operational highlights. Total investment income for the quarter was just north of \$1 million, a 37% increase over last year, and reflects the continued shift in our portfolio profile to more interest-yielding assets. In total, 23 portfolio companies generated income compared with 20 in the prior year period.

This quarter's total investment income also benefited from approximately \$230,000 of dividend income, which was up 146% over last year's third quarter. This was primarily comprised of dividends received from our BDC investment portfolio and Knoa Software.

Total expenses in the quarter were \$962,000, up from \$456,000 in last year's third quarter, largely reflecting the capital gains incentive fee accrual which Pete has already discussed. Again, as a reminder, a capital gains incentive fee accrual under GAAP is calculated using the cumulative aggregate realized capital gains and losses and the aggregate net change in unrealized capital appreciation and depreciation at the close of the period.

Operating expenses, which is a non-GAAP financial measure and excludes the capital gains accrual, increased \$52,000, or 11%, mostly due to the increase in the base management fee payable to Rand's investment adviser resulting from the increased portfolio asset values.

Even with the increase in expenses, net assets from operations increased to \$2.3 million, or \$0.90 per share.

**Slide 12** provides a waterfall graph for the change in NAV for the year-to-date period. This increase was largely due to the change in fair value of Rand's investment in Open Exchange, Tilson and ACV, which were reflected in the \$13 million net change in unrealized appreciation on the portfolio investments.

Also contributing to the NAV increase was a net realized capital gain on the sale of Centivo, which Pete has already discussed, and our second quarter sale of GiveGab. We have also declared and paid out approximately \$770,000 of cash dividends.

**Slide 13** highlights the strength of our balance sheet. Cash and cash equivalents at the end of the quarter was \$13.3 million and approximated 22% of net assets. As Pete mentioned, earlier this week, we used our excess liquidity to repay our \$11 million of SBA obligations. In addition, Rand submitted a request to SBA to surrender its SBIC license. This will also terminate the availability of the \$3 million of available undrawn SBA leverage. We believe that these actions will simplify our regulatory reporting and our lending processes by eliminating these heavy regulatory burdens of operating as an SBIC.



As highlighted in the table on the slide, we have well over \$15 million in liquid BDC stocks, ACV stock, which can provide near-term funding capital for these investments. As required to maintain our RIC status, we will continue to distribute at least 90% of our calendar year qualified income to our shareholders in the form of dividends. Rand has distributed \$0.10 per quarter through September 30, which was based off our initial conservative estimates of our 2021 net investment income.

We do review these calculations quarterly based on our actual year-to-date GAAP and estimated tax results. I will note that, during the fourth quarter, we expect to record significant onetime write-off costs related to the SBA debt repayment and final interest payments, and this is all part of the SBA debt repayment process.

Later this fourth quarter, we will again review all sources of GAAP and tax-based income, including those from short- and long-term capital gains, which may result in additional 2021 distributions over the previously distributed regularly quarterly \$0.30 of cash dividends that were paid out.

The final determination and calculation of our tax-based distributable income for each year is finalized in September of the following year in conjunction with our tax return filings. This is commonly referred to as a spillback dividend.

Our current share repurchase program has authorized the purchase of up to \$1.5 million in stock and expires next year, in April 2022. We did purchase 1,148 shares during the third quarter at an average purchase price of \$18.09 per share and total cost of about \$21,000.

That completes our prepared remarks. Operator, please open the line for questions.

**Operator:** [Operator Instructions] There are no questions at this time. I'd like to hand the call back over to management for any closing comments.

**Pete Grum:** Thank you, everyone, for joining us on today's call and for your interest in Rand Capital. As always, please feel free to reach out to us at any time, and we look forward to talking with you all again after our fourth quarter 2021 results.

Thank you for your participation and have a great day.

**Operator:** This does conclude today's teleconference. We appreciate your participation. You may disconnect your lines at this time. Have a great day.

*Note: This transcript has been edited slightly to make it more readable. It is not intended to be a verbatim recreation of the Rand Capital (RAND) financial results teleconference and webcast that occurred on the date noted. Please refer to the webcast version of the call, which is available on the Company's website (<https://www.randcapital.com>), as well as to information available on the SEC's website ([www.sec.gov](http://www.sec.gov)) before making an investment decision. Please also refer to the opening remarks of this call for RAND's announcement concerning forward-looking statements that were made during this call.*