



Operator: Greetings, and welcome to the Rand Capital Corporation First Quarter 2021 Financial Results.

[Operators Instructions]

It is now my pleasure to introduce your host, Deborah Pawlowski, Investor Relations for Rand Capital. Thank you. You may begin.

Deborah Pawlowski: Thank you, and good afternoon, everyone. We appreciate your interest in Rand Capital and for joining us today for our first quarter 2021 financial results conference call. On the line with me 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 the slides that will accompany our conversation today. If not, they are available on our website at randcapital.com.

If you are following along on the slide deck and would turn to **Slide 2**, I would like to point out some important information. As you are likely 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 in other documents filed by the Company with the Securities and Exchange Commission. These documents can be found on our website or at sec.gov.

During today's call, we will also discuss some non-GAAP financial 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 have provided reconciliation of non-GAAP measures with comparable GAAP measures in the tables that accompany today's release.

With that, please turn to **Slide 3** and I will hand the discussion over to Pete to begin. Pete?

Pete Grum: Thank you, Deb, and good afternoon, everyone.

We started the year on a strong note as we continue to transform our portfolio from equity investments to income producing investments. For the quarter, the number of companies contributing to investment income nearly doubled over the prior year period, resulting in total investment income growing approximately 60% to \$1 million, or \$0.39 per share.

Net asset value was up 16.9% to \$20.87 per share, and this was primarily attributable to the increase in fair value of our investment in ACV Auctions, which completed their IPO at the end of March. We did report at a GAAP net investment loss of \$0.84 per share. This is because, during the quarter, we accrued \$2.6 million in non-cash expenses related to capital gains incentive fees, which were primarily attributed to ACV's unrealized appreciation. Absent as expense, adjusted net investment income was \$0.16 per share, demonstrating the success of our transformation into an income producing, dividend paying BDC.

As you know, we announced the payment of our first regular quarterly dividend of \$0.10 per share during the first quarter. This was the combination of our transformation that began in 2019. At the end of April, we announced our second quarter dividend, also at \$0.10 per share. This year, we have paid out \$1.53 per share in dividends, including the \$1.33 per share that was declared at the end of last year.



Please turn to **Slide 4**, and we can discuss the progress we have made regarding our evolution of our investment portfolio to support our strategy. The 31% increase in fair value shown here demonstrates the impact of ACV's IPO. We first invested \$163,000 in ACV in 2016. It now has a fair value of over \$15.8 million. Our shares are now restricted until September 20, 2021.

At quarter end, the portfolio was comprised of approximately 56% in equity investments, 34% in fixed-rate debt investments and 10% in dividend paying publicly-traded BDCs. We had a lot of activity in our portfolio for the quarter. We made \$6.7 million in new investments, which included \$4.6 million in new portfolio companies. We also received \$4.5 million from exits and loan repayments.

Turning to **Slide 5**, you can see how we invested the quarterly record of \$6.7 million.

The largest investment during the quarter was a \$2.8 million term loan with warrants from Seybert's Billiards Supply. Founded in 1998, Seybert's carries a wide variety of premium billiard equipment and is the largest distributor of Predator billiard cues in the U.S. They have developed one of the leading e-commerce platforms for the billiard category and are known for their quality products and service. With the capital infusion, Seybert's is planning to expand its social media presence and grow its e-commerce marketing and customer service platform.

Rand also participated with other investment partners to provide acquisition and growth capital in connection with the formation of a full-service fire protection platform under the name of BMP Swanson Holdco. The merged companies have offices in Jacksonville, Florida and Waldorf, Maryland and offer a suite of end-to-end fire protection products and services for the commercial and residential facilities. Our \$1.8 million investment consisted of subordinated debenture and preferred equity.

Lastly, we increased our investments in publicly-traded BDCs, which totaled approximately \$2.1 million. These investments continue to provide dividends that put our capital to work and our liquid instruments that we can readily access for other opportunities as we find them. The fair value of all our BDC investments at quarter end was \$5.1 million.

Slide 6 illustrates the diversity of our portfolio and the change in industry mix since 2020. With the investments we recently made and the impact of exits, Software and Healthcare saw sizable increases while Manufacturing declined to 10% of the total portfolio. BDCs now make up 10%, reflecting recent investment and changes in fair value. We believe that this diversity of our portfolio reduces our exposure to market risk.

Slide 7 lists our top five portfolio companies at quarter end. Seybert's replaced SMG as they paid-off their notes and exited the portfolio. There were no changes within the ranking of the top four, besides the measurable increase in ACV's fair value given their IPO. Their valuation in our portfolio increased to \$15.8 million and represents 29% of our net assets.

As I mentioned, Rand was an early investor in ACV, Acquiring Series Seed II preferred stock in August 2016. Following the IPO, Rand now holds 590,580 shares of ACV common stock. Any proceeds for us above our initial investment will be a capital gain and treated as such as it relates to any dividend or distribution. While there are varying possible changes to time, we are now subject to a 180-day lock-up agreement.

With that, I will turn it over to Dan Penberthy to review our financials in greater depth.

Dan Penberthy: Thanks, Pete, and good afternoon, everyone.

Slide 9 provides an overview of our financial summary and operational highlights. Total investment income for the quarter was \$1 million, an approximate 60% increase over last year,



and reflects a shift in our portfolio profile to more interest yielding assets, as Pete explained. The quarter's income also benefited from approximately \$180,000 of OID income, Original Issue Discounts, which resulted from loan payoffs as well as a large annual dividend received from a portfolio company.

Total expenses in the quarter were \$3.2 million, up \$2.6 million, which reflected the addition of accrued capital gains incentive fees during the quarter. These were primarily attributable to ACV's unrealized appreciation.

A capital gains incentive fee accrual under GAAP is calculated using the cumulative aggregate realized capital gains and losses, and then adjusting for the aggregate net change in unrealized capital appreciation or depreciation at the close of the period. It's important to highlight that, while we record the GAAP expense related to the capital gains fee, no liability or payment is actually due or payable to the external manager until an actual realized exit occurs.

Net investment loss was \$2.2 million, or \$0.84 per share, compared with income of \$538,000, or \$0.33 per share, in the prior period. Last year's first quarter included a \$419,000 income tax benefit due to Rand's conversion to an RIC, or Regulated Investment Company, as well as a tax benefit received under the Federal CARES Act.

Excluding the accrued capital gains incentive fees, adjusted net investment income per share was \$0.16 for the first quarter of 2021. Even with the increase in expenses, net assets from operations increased \$8 million, or \$3.11 per share, again, largely impacted by ACV's valuation change.

Slide 10 provides a waterfall graph for the change in NAV for the quarter. The increase was due to the change in fair value of Rand's investment in ACV, which was reflected in the \$9.9 million net change in unrealized depreciation on investments. Also contributing to the NAV increase was a net realized gain on the sales and disposition of investments of \$311,000. We also did pay out approximately \$260,000 in cash dividends.

Slide 11 highlights the strength of our balance sheet. We have approximately \$18 million in liquidity for new investments, which is comprised of \$14.9 million of cash and also our undrawn SBA commitment of \$3 million, which is available to invest as we continue to transition our portfolio. The \$11 million currently owed to the SBA matures over a multi-year period that begins next year, 2022, when \$3 million is due.

With the support of our strong liquidity position, we believe we can continue to execute our strategy as we grow our portfolio and further drive investment income. We will continue to distribute a large part of our income to our shareholders in the form of cash dividends as required by our RIC status. This includes the first and second quarterly dividends of \$0.10 per share that we announced in February and April.

Our annualized dividend rate of \$0.40 is based off our conservative estimates of GAAP net investment income for the year. The final determination and calculation of a tax-based distributable income will occur at the close of the year, and we'll also then consider net investment income, our net realized gains or losses we may recognize during the year, in addition to any other needed tax adjustments. Also, we did renew our share repurchase program during the quarter, authorizing the purchase up to \$1.5 million in stock. This updated plan expires next year in April 2022.

Lastly, **Slide 12** summarizes our overall funds position. As we look forward, we have a number of focused action items, many of which are continuation of the strategic initiatives that have been underway as part of our transformation. While we believe we have a strong income



producing portfolio and equity investments that provide potential for additional capital gains, we will continue to prudently adjust our portfolio mix to drive returns and to support a growing dividend.

That completes our prepared remarks. Pete, let's open up the line for questions.

Operator: Thank you, Ladies and Gentlemen, at this time, we will be conducting a question-and-answer session.

There are no questions in the queue. I'd like to hand the call back to Mr. Grum for closing remarks.

Pete Grum: Thank you for joining us today and for your interest in Rand Capital. We look forward to updating all of you on our second quarter results in August. Have a great day and stay safe.

Operator: Ladies and Gentlemen, this does conclude today's teleconference. Thank you for your participation. You may disconnect your lines at this time. Have a wonderful day.