



Operator: Greetings, and welcome to the Rand Capital Corporation First Quarter 2020 Financial Results Conference Call. [Operator Instructions] It is now my pleasure to introduce your host Deborah Pawlowski, Investor Relations for Rand. Thank you, Miss Pawlowski, you may begin.

Deborah Pawlowski: Thank you Victor, and good afternoon, everyone. We appreciate your interest in Rand Capital and for joining us today for Rand's First Quarter 2020 Financial Results Conference Call.

On the line with me today are Pete Grum, our Chief Executive Office and Dan Penberthy, our Executive Vice President and Chief Financial Officer.

You should have a copy of the release that crossed the wire this morning, as well as the slides that will accompany our conversation today. If you don't have the slides, they are available on our website at www.randcapital.com.

If you would now turn to the slide deck and look at Slide 2, I want 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.

With that, let me now turn it over to Pete to begin. Pete.

Pete Grum: Thanks very much, Deb. Good afternoon, everyone and thank you for your time and interest today. These are certainly unusual times, given the COVID-19 pandemic and we hope that you and your families are well and safe.

Even during this remote working situation, as you can see on Slide 3 we continue the work required to advance the transformation of Rand into a regulated investment company, or RIC. We had announced in March the special dividend of \$23.7 million or \$1.62 per share that represents the distribution of our accumulated earnings and profits since inception and is required in order for us to be treated as a RIC for 2020. The dividend is being distributed today, and the stock will begin trading ex-dividend tomorrow.

Approximately 70% of the shares outstanding elected to receive the dividend in stocks and the remaining 30% either elected cash or did not provide an election. For that 30%, the distribution will be approximately \$1.06 of cash and about \$0.56 of the stock. The stock value to determine the number of shares for the stock dividends was based on the volume weighted average price, for the three days of trading that ended on April 29. That price was \$2.20 per share.

Other news today is that the Board approved 1:9 reverse stock split. The reverse will be effective on May 21 at 5:00pm and our stock will begin trading on May 22, reflecting the reduced share count. The Board also approved a new share buyback authorization. Under the authorization, we can repurchase up to \$1.5 million in shares.

Please turn to Slide 4 where we show the share count impact of the dividend and what it should look like, following the reverse split. Shareholders had approved, at our shareholder meeting in December 2019, a reverse split within the range of 1:7 to 1:10.

Let's look at Slide 5 and let's talk about the activity in our portfolio in the first quarter.

We had a major exit with the sale of our investment in Outmatch for a \$2.3 million gain. There were a couple other additional earn outs, from previous exits, that amounted to just under \$100,000. During the quarter we invested \$1.7 million in the public equity of five public BDCs, which I will discuss on the next slide.



Net asset value at the end of the quarter increased \$0.03 to \$3.69 per share, over the \$3.66 in NAV per share at the end of the year. The benefits of lower expenses from the externalization of management, a tax benefit, and gains from exits, were offset by the negative impact of unrealized depreciation and the elimination of a deferred tax asset, which was related to our intention to elect RIC status.

Slide 6 highlights the BDCs in which we invested, which we invested \$1.7 million during the quarter. Representing about 5% of our portfolio, these investments provide dividend income and greater liquidity as public equity than our other investments in our portfolio. These companies are much larger than we are, and range in market capitalization from \$600 million to nearly \$6 billion.

Let's turn to Slide 7. These charts demonstrate the diversity of our portfolio, which we believe is an important factor in these challenging economic times. The portfolio companies we gained from the investment by East Asset Management contributed to our diversity.

Let's talk a little bit about how we are addressing the COVID-19 pandemic within our portfolio. As you might imagine, everyone is working to help in the containment of the virus, as we are at Rand Capital. We believe our companies are doing what they can do to work remotely, impose social distancing and increase personal hygiene and sanitation protocols.

As you might expect, the current economic distress caused by COVID-19 will have an impact on our portfolio companies. We have been actively commuting with our portfolio during the situation. Of the 36 companies in the portfolio, 30 qualified for the Payroll Protection Program loans supported under the CARES Act, and 26 of these companies applied for the program.

The companies having a consumer focus are among those negatively impacted by the stay at home conditions throughout the country. Countering that are those that have products or services that are necessary during the crisis, such as healthcare and software or technology. For example, one of our companies applied for, and received, approval for the Emergency Use Authorization for assay testing of COVID-19, although the Rheonix COVID-19 MDx assay has not been FDA cleared or approved.

In addition, Centivo, a technology enabled health plan that provides a lower cost option for self-funded health care plans, providing both employers and their people better, lower cost health care experience, recently launched into several new states. While we believe our portfolio diversification provides a degree of defense against the disruption of the economy, we are not immune to the conditions.

Slide 8 lists the top five investments in our portfolio that comprise 54% of our total portfolio assets. Among them, Tilsonis experiencing strong demand in this environment while others are flexing as needed.

Please turn to Slide 9. The mix of equity investments versus debt investments was 59% equity and 41% debt at the end of the March quarter. Equity interest declined from a level of 65% at the end of 2019 with the exit of Outmatch, which had been about 6% of our portfolio.

Our investment thesis has changed with the transformation of Rand. Our focus is now growing investment income that will fund our planned ongoing cash dividends. As a result, we should expect our portfolio will continue to shift more towards interest and dividend paying investments.

I should note that during the stay at home environment, while the pipeline for investments remains robust, our ability for due diligence has been impeded. This makes it difficult to be active at our funding process, so we will continue to do the groundwork so that we can and complete our site visit as local governments reduce restrictions.

Let me turn to it over to Dan to review our financials in greater depth. Dan?

Dan Penberthy: Thanks, Pete and good afternoon, everyone. If you could please turn to Slide 11, I'll start with the net asset value per share, or NAV. As Pete mentioned, we finished the quarter with NAV of \$3.69 per share, this was up three cents from the end of December. I'll cover this more on the next slide.



Let me point out the significant change in NAV compared with the first quarter of 2019 period of \$1.37 per share was primarily attributable to the \$0.83 per share dilutive effect of issuing 8.3 million shares to East in November. At the end of 2019, we also had a number of write-downs in certain portfolio companies.

Slide 12 has a summary of our operating performance for the first quarter of 2020 and 2019. Total investment income in the first quarter of 2020 was \$636,000, down \$83,000 from last year's first quarter. The prior year period benefited from an atypical level of fee income of \$225,000 in conjunction with the repayment of the \$3.5 million loan instruments of a former portfolio company, eHealth.

Excluding this payment, investment income was up approximately \$140,000 demonstrating the success we have been having with shifting our portfolio into one that delivers more interest income. This will enable us to pay anticipated regular cash dividends in the future.

Another important element of our transformation was the externalization of the management of the Rand portfolio to Rand Capital Management, which is the registered investment advisor for Rand. Our first quarter expenses were down about \$173,000, mostly from the benefit of this externalization.

Strong investment income, lower expenses, and the tax benefits from the CARES Act and other tax adjustments, resulted in a net investment gain of \$538,000 for the quarter.

Results this quarter did have more complexities than is typical, as I'm sure you've realized. We had the benefit of the Outmatch sale which resulted in the \$2.4 million gain.

However, another impact in the quarter related to our intention to convert to a regulated investment company, or RIC, was the elimination of a \$1.4 million deferred tax asset. Because we plan to elect RIC status for 2020 and pass through our earnings to shareholders, the tax asset is no longer of use and we were required to write it off. The net result was a net realized and unrealized loss of \$108,000 in the quarter compared with the gain in the prior year period of \$433,000. Thus net-net, we had an increase in net asset value of \$430,000 or \$0.03.

If you would turn to Slide 13, please, we can discuss the uniquely strong position we are in during this disruption to the economy caused by the coronavirus and the efforts to curb the spread. With the investment from East, we have a historically high level of cash of \$29.1 million. Of that \$13.5 million is at the FDIC for making investments and \$15.6 million is at the parent and provides a significant amount of liquidity for us, as well as additional investment opportunities.

Total liquidity also includes \$3 million of availability of leverage commitments from the SBA. The \$11 million owed to the SBA, matures over a multi-year period that doesn't begin until the \$3 million first tranche which is due in 2022.

We distributed today \$4.7 million in cash as part of a special dividend. However, even after that distribution, we've remained highly liquid. The table on this slide shows the composition of our NAV as well.

That completes my formal comments. Pete, would you like to open up the line for questions?

Pete Grum: Yes please.

Operator: Thank you. [Operator Instructions] Our first question comes from Sam Rebotsky with SER Asset Management, please proceed with question.

Sam Rebotsky: Yes, Pete and Dan. We have \$29 million in cash, approximately, net and will we use 4.7 for distribution? What is your plan, as far as keeping the number in cash? And it would appear the type of investment that produces capital gains would not be made in the future: is that accurate?

Pete Grum: We will tend to look for instruments that provide current income, so that we can pay a dividend. However, within the SBIC, you will see investments that still tend to have an equity component in them.



Sam Rebotsky: What is our expectation that \$25 million, more or less, that we have now of investing that, I presume until all these transactions are complete, you may have not been sure how much cash was going to be requested. And now that you do, is there a number that you want to keep? Or are there opportunities to create greater income that you'd like to do presently?

Pete Grum: We would like to be fully invested, and are looking for opportunities as we alluded to. It's a little bit tougher when you can't go and meet with companies. We are working with investment bankers and there may be opportunities to buy portfolios going forward. But it's in our interest and the shareholders interest for us to deploy the money in a prudent manner as soon as possible.

A fair amount of liquidity has come from Texas which we were. in the past, not able to forecast. But at the end of the year, we sold our equity in Microcision and we had Outmatch, but we're looking for opportunities and will continue down that path.

Sam Rebotsky: And the dividend will be paid once a year or quarterly or what when do you expect that to happen?

Pete Grum: I believe it will be payed quarterly. It's up to the Board. But we will certainly address it in the second quarter.

Operator: Thank You. It looks like we have no further questions at this time. I would like to turn the floor back over to Mr. Grum for closing remarks.

Pete Grum: Thank you for your interest in Rand Capital and we're excited about the future. We want everyone to stay safe. As always, we're available by phone. So give us a call if we didn't answer your question. Thank you.

Operator: Ladies and gentlemen, this has concluded today's teleconference. You may not disconnect your lines at this time. Thank you for your participation.