



**Operator:** Greetings, ladies and gentlemen, and welcome to Rand Capital's Second Quarter 2020 Earnings Conference Call. [Operator Instructions] It is now my pleasure to introduce your host, Deb Pawlowski, of Investor Relations. Thank you. You may begin.

**Deborah Pawlowski:** Thank you, Jen, and good morning, everyone. We appreciate your interest in Rand Capital and taking the time to join us this morning.

On the line 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 the slides that will accompany our conversation today. If not, they are available on our website at [www.randcapital.com](http://www.randcapital.com).

Please note that in our discussions today, all per share values in the release and slides will reflect the 1-for-9 reverse split that was effective on May 21 this year.

If you would turn to **Slide 2** on the slide deck, 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](http://sec.gov).

If you'll turn to **Slide 3**, I will hand the discussion over to Pete. Pete?

**Pete Grum:** Good morning, everyone. Thank you for your time today. I sincerely wish that I could say that the COVID-19 pandemic is behind us all, but it looks like that will not be the case for some time. I hope that you and your families are healthy and safe.

At Rand, we continue to work remotely and alternate everyone's presence in the office. Even while we operate in the COVID-19 altered working environment, we were able to leverage the success of our transformation strategy to deliver solid financial performance. In fact, total investment income increased almost 16% over last year.

The effectiveness of the externalization of the administration and management of our portfolio to Rand Capital Management LLC, or RCM, contributed to lowering expenses \$80,000 compared with last year's second quarter. The combination of growth and investment income and lower cost drove net income higher to \$199,000, or \$0.08 per share compared with a \$0.20 per share loss in the second quarter last year.

In May, we distributed \$23.7 million as a special dividend, consistent with the intent to elect regulated investment company, or a RIC, status with the IRS. As you know, the dividend was paid in both cash and shares of stock. The \$4.8 million cash portion of the dividend payment was the primary reason that our net asset value was down a little more than \$4 million to \$49.7 million at the end of the quarter. The approximately 960,000 additional shares issued as part of the dividend impacted the per share value of NAV. NAV was \$19.21 per share compared with \$33.20 per share at the end of March 2020. Dan, in his presentation, will present a more detailed analysis of the change in NAV per share. Also during May, we executed the 1-for-9 reverse stock split that Deb mentioned in her comments.

In June, we repurchased 1,300 shares under our current \$1.5 million share repurchase authorization at an average price of \$10.99 per share. In addition, the Board authorized a 10b5-1 plan for the share repurchase program. By having program purchases established with the banker brokers that identifies the amount of shares to repurchase at certain prices, we are allowed to repurchase shares at times when we might otherwise have been prevented from doing so by securities law or because of self-imposed trading blackout periods.

We closed out the quarter with \$22 million in cash and cash equivalents as of June 30, 2020, which represents 44% of our net assets. We also have an additional \$3 million available on the SBA loan



program. This has put us in a unique and strong position for building our portfolio and to continue executing our transformation strategy. It was a busy quarter for us.

If everyone can turn to **Slide 4**, you can see that we are invested 58% equity and 42% debt at the end of the quarter. This reflects our investment objective to generate current income, and when possible, complement income with capital appreciation. Our future investments will continue to focus on yield investments, primarily debt and loan instruments. We also will evaluate equity investments as alternative instruments that can provide income through dividends.

During the second quarter, Rand invested approximately \$1.5 million in our portfolio company, SciAps, with a fixed rate senior promissory note at 12%, due 2023. I will tell you a little more about this portfolio company later in the presentation.

Interest provided by our portfolio companies increased 81% from 2019, and our net investment income was \$199,000 compared with a loss of \$241,000 a year ago. We also invested \$750,000 into Tilson Technology during the quarter. Tilson pays a regular dividend to Rand.

The charts on **Slide 5** demonstrate the increased diversity and growth in our portfolio. We believe that the diversity reduces our exposure to market risk and will benefit us during the challenging economic times in which we find ourselves. We continue to engage in active discussions with the management teams of the companies within our portfolio regarding actions they have undertaken to limit the spread of COVID-19. We believe that our portfolio companies are taking the necessary actions to ensure the safety of their company, employers, employees, customers and suppliers by enacting such procedures as work from home processes, staggered schedules and increased sanitation efforts as well as social distancing. In addition, most of the portfolio companies that are qualified have received loans through the paycheck protection program and, where applicable, are applying for other federal support programs.

We do not know the total impact of the pandemic and resulting economic downturn may be on our portfolio companies, but we are actively monitoring them, their liquidity and operational status. We've been encouraged, frankly, by the resiliency of the portfolio.

If you turn to **Slide 6**, you can see our top five portfolio companies. I mentioned earlier two of the investments during the quarter. We also purchased 57,000 of additional shares of Golub Capital BDC through a rights offering. Including this investment, the portfolio value of our public BDC securities in our portfolio increased by approximately \$269,000 during the quarter.

Let's spend a minute talking about SciAps. This company is located just outside of Boston, Mass. and is a leading manufacturer of handheld analyzers to provide instant elemental analysis of many industrial materials, including alloys, ores, minerals, powders and other materials that are widely used in the heavy industry, including oil and gas, mining, heavy transportation, chemicals, pharmaceutical and primary medical metal producers and manufacturers. The company's analyzers offer rapid, accurate results on a variety of alloy materials, including the measurement of carbon content in steels and stainless. We are pleased with our support of SciAps and their role in providing more efficient analysis equipment.

I should note before handling the call over to Dan that during the past two quarters, with social distancing requirements throughout the economy, our ability for due diligence continues to be impeded though our investment pipeline remains robust. It has made it difficult to be active in our funding process, where we continue to prepare our due diligence so that we complete our site as our restrictions are eased.

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

**Daniel Penberthy:** Thanks, Pete, and good morning, everyone. If you could please turn to **Slide 8**, you can see that the total investment income in the second quarter of 2020 was \$675,000, which is up 16% from last year's second quarter. This was largely due to an 81% or \$255,000 increase in interest income that was a result of the change in our portfolio profile to more debt investments.

As Pete mentioned, the externalization of the administration and management of the Rand portfolio contributed \$80,000 in savings, but last year's second quarter was also heavily impacted with higher professional fees and stockholder costs because of the proxy contest during that period. Second quarter expenses were more than 40% lower than the same period last year. Our strong investment income and



significantly reduced expenses during the quarter resulted in a net increase in net assets from operations of \$424,000 or \$0.20 per share.

The waterfall graph on Slide 9 visually shows the sequential impact of several items affecting NAV during the second quarter. While we increased net assets from operations by \$400,000, this was more than offset by our returning \$4.8 million to our shareholders in the form of the cash dividend. Additionally, we repurchased 1,300 shares of stock during the quarter, which also had an impact on NAV.

If you will turn to **Slide 10**, you can see our net asset value per share compared with last quarter. As part of the special dividend we paid in the second quarter, we distributed approximately one million shares of Rand stock. This was a 59% increase of shares outstanding, which also impacted NAV on a per share basis by \$11.29. These explain the larger decline in the NAV per share.

If you would now turn to **Slide 11**, I will discuss the strong position we remain in during this COVID-19 influenced economy. We continue to have a high level of cash at \$22.1 million. Of that, \$10.6 million was available for corporate purposes, providing a significant liquidity for us; and \$11.4 million is reserved for investments by the SBIC subsidiary. Our total liquidity also includes \$3 million of additional availability of leverage, which is our remaining commitment from the SBA. The \$11 million debentures owed to the SBA mature over a multiyear period that does not begin until 2022. In 2022, we have our first \$3 million installment due to the SBA.

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

**Operator:** Thank you. [Operator Instructions] One moment, please, while we poll for questions.

Our first question comes from the line of Sam Rebotsky with SER Management. Please proceed with your question.

**Sam Rebotsky:** Good morning, Pete and Dan, I'm a little behind because my computer equipment is not working well. But I've heard everything that you've said and as far as what Rand looks like today. As far as the dividend, with the \$0.08 in the current quarter, we would give 90% of the \$0.08, assuming that was what the earnings was?

**Pete Grum:** The requirements are that we give a minimum of 90% of our net investment income. We're evaluating that in the third quarter, and we'll be able to provide further guidance then. But you are correct, that is the tax rule.

**Sam Rebotsky:** Okay. Further, in addition, you filed the document which indicated you're looking for more money, this is with a combination with the largest shareholder. What is your progress relative to raising additional funds? How will this spend benefit the Rand Capital shareholders?

**Pete Grum:** I'm not sure what document you're referring to, Sam.

**Sam Rebotsky:** I don't have it in front of me, well, do you have a plan to raise additional funds?

**Pete Grum:** At this point, we don't have one. I don't believe we've filed anything regarding that. Deb, were you aware of anything we've filed?

**Deborah Pawlowski:** No, no. I'm not quite sure what you're talking to, Sam.

**Sam Rebotsky:** With the SEC disclosure. When my computer equipment is better working, I'll come back to you on that point.

**Deborah Pawlowski:** I mean, so we have right now, a lot of cash. We have \$22 million in cash. We still have \$3 million available to draw on the SBA loan, so it's not like we need additional funds at this point. We need to put that money to work.

**Sam Rebotsky:** Okay. I will come back to you after my equipment is better working. At this point, with the \$22 million, what is your plans on investing this money? Are you seeing a lot of opportunities? Will we earn more than we're currently earning on the \$22 million? What is our time frame for the earnings?

**Pete Grum:** We continue to seek investments. We continue to execute on investments. The next quarter, I believe, that you'll see that we've put some of this money to work. As we addressed, it's a little bit



difficult because part of our due diligence is meeting with the companies, which sometimes is problematic. But no, we continue to invest the money. Our goal is to increase our investment income through debt instruments, and you'll see more of that as we go forward.

**Sam Rebotsky:** Well, that sounds good. One further question. To get more exposure to new potential shareholders, how do you expect to participate? Unfortunately, you have to do it in virtual conferences. Do you have any plans on doing something like that?

**Pete Grum:** We have not signed up for it in the near future, but we're certainly going to evaluate that. Part of what we're doing, Sam, as you know, we have people that were interested in Rand because of our equity investments. We are transforming them over to and have had active conversations. People that are invested and interested in getting a dividend yield.

**Sam Rebotsky:** Well, good luck. Hope you find some new investors. Of course, with the stock's book value 19-plus and with \$22 million in cash and the stock currently in the \$11 range, it would appear that with bigger exposure, you might be able to trade at a higher level. Okay. Good luck, guys.

**Pete Grum:** Thanks, Sam. Call me about that filing you referenced.

**Sam Rebotsky:** I will. I'll come back to you on that next week.

**Operator:** Our next question comes from the line of Lance Gad with Lance Gad..

**Lance Gad:** Yes, thank you. I was curious if the recent developments with Eastman Kodak would have any beneficial effect on Rand?

**Pete Grum:** Not that I'm aware of. Are you referring to how that stock spiked up because of some government contract?

**Lance Gad:** No. The government lent Eastman Kodak \$750 million to produce medical ingredients, eventually 25% of the needs of the United States. I don't know, I thought it would help New York state, upstate New York. I know you're in Buffalo, but I would think that anything that helps the upper New York state would help you, no?

**Pete Grum:** I'm not aware of any of our companies that have exposure to Eastman Kodak. As that money gets deployed, it may impact some of our companies.

**Operator:** As a reminder, ladies and gentlemen, if you would like to ask a question, please press star, one on your telephone keypad.

I'm seeing no further questions at this time. I would like to turn the floor back to Management for closing comments.

**Pete Grum:** Thank you for your participation this morning and your interest in Rand Capital.

**Operator:** Thank you. Ladies and gentlemen, this concludes today's teleconference. You may disconnect your lines at this time.