



# Rand Capital Announces Fourth Quarter and Full Year 2019 Results

- ***Total assets grew by \$24.3 million, or 60%, in 2019 to \$64.8 million, benefiting from \$25 million investment from East Asset Management***
- ***Ended the year with \$25.8 million of cash available for future investments and dividend payments***
- ***Invested \$2.8 million of follow-on capital in six portfolio companies during 2019***
- ***Net Asset Value per share was \$3.66 at December 31, 2019, impacted by 8.3 million shares issued to East***

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 year ended December 31, 2019.

Allen F. ("Pete") Grum, President and Chief Executive Officer of Rand Capital, commented, "2019 was a transformational year for us. We ended it as a fundamentally different company, structured to provide better returns to our shareholders. The year culminated with a \$25 million investment in Rand by East Asset Management (East), in exchange for approximately 8.3 million shares of Rand common stock. We received approximately \$9.5 million in portfolio assets and \$15.5 million of cash, which we look forward to investing to grow Rand's investment portfolio."

He noted, "We have nearly completed the process of transforming Rand into a regulated investment company (RIC). As announced last week, our Board declared a \$23.7 million, or \$1.62 per share, special dividend equivalent to our accumulated earnings and profits, payable in a combination of cash and Rand common stock. The members of the Rand Board and management team have all expressed their intent to elect to receive the dividend in the form of Rand common stock, evidencing our confidence in Rand's future. Following payment of the special dividend, the Board intends to authorize a reverse stock split of between 7:1 and 10:1. The effect will be to consolidate the number of existing shares of Rand stock into fewer, proportionately more valuable shares."

Mr. Grum added, "Rand Capital Management's newly formed investment committee has been actively engaged in seeking opportunities to put our new capital to work. Our focus is on more interest-yielding debt securities to increase investment income, facilitating the future payment of regular cash dividends to our shareholders."

## Fourth Quarter and Full Year 2019 Financial Highlights

- Driven by the \$25 million East investment in Rand, at December 31, 2019, the Company's portfolio fair value was \$37.0 million and consolidated cash was \$25.8 million (\$1.76 per share).
- For the full year, Rand invested in six companies totaling \$2.8 million.
  - During the fourth quarter, invested \$1.75 million supporting two existing portfolio

companies with follow-on investments:

- GoNoodle, Inc., \$1,500,000
- Lumious (formerly Tech 2000, Inc.), \$250,000
- During the fourth quarter, Rand sold its equity interest in Microcision LLC for \$1.5 million. Initially acquired in 2009, Rand realized a \$1.5 million pre-tax gain on the sale. Microcision LLC also repaid principal of approximately \$453,000. In the first quarter of 2020, Rand updated its \$1.5 million subordinated note due from Microcision LLC to reflect an 11% interest rate with a five year maturity, and received a warrant for 5% of the company's equity.
- Reported \$3.66 net asset value (NAV) per share at December 31, 2019, compared with \$4.39 at September 30, 2019 and \$4.99 at December 31, 2018.
  - NAV benefited from the net gain on the sale of the equity investment in Microcision LLC as well as an increase in net unrealized appreciation in other portfolio investments, including ACV Auctions, Inc., in accordance with the Company's valuation policy.
  - Offsetting this was the \$0.83 per share dilutive impact of issuing approximately 8.3 million shares to East, in conjunction with the closing of the stock purchase transaction in November.
- Investment income increased 47% and 29% over the prior-year fourth quarter and full year, respectively, due to the Company's investment focus on income-generating instruments as well as variations in nonrecurring investment income in each period.

#### **Fourth Quarter 2019 Performance**

Total investment income in the fourth quarter of 2019 was \$985,000, compared with \$668,000 in the same period last year. The \$317,000 increase included approximately \$76,000 of incremental interest income, \$70,000 of incremental dividend income, and \$170,000 of incremental nonrecurring fee income.

Total expenses in the 2019 and 2018 fourth quarters were \$726,000 and \$684,000, respectively. Excluding costs related to the East transaction that are in the statements of operations, fourth quarter 2019 and 2018 expenses were \$645,000 and \$581,000, respectively, with the prior year quarter benefiting from a \$50,000 bad debt recovery. The 2019 fourth quarter includes costs for the base management fee payable to Rand Capital Management, LLC ("RCM"), the newly established external registered investment adviser retained by Rand in conjunction with the East transaction. RCM, as the external investment adviser, is now responsible for paying certain expenses such as compensation and office expenses.

Rand recorded a \$1.5 million pre-tax gain upon the sale of its equity investment in Microcision LLC during the fourth quarter of 2019, compared with a \$338,000 realized pre-tax loss during the prior-year fourth quarter.

The Company also recorded a positive change in pre-tax net unrealized appreciation of \$224,000 and \$1.5 million in the fourth quarters of 2019 and 2018, respectively. The 2019 appreciation was driven by a favorable valuation adjustment for ACV Auctions, Inc. and also benefited from an increased value of PostProcess Technologies, Inc., two portfolio companies whose values increased upon the completion of financing rounds during the quarter. These increases were partially offset by valuation reductions of four other portfolio companies and the reversal of previously recorded appreciation of Microcision LLC, which

was realized upon Rand's sale of its equity investment.

### **Full Year 2019 Performance**

Total investment income was \$2.7 million and \$2.1 million for the years ended December 31, 2019 and 2018, respectively. 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 years ended December 31, 2019 and 2018 were \$2.8 million and \$2.2 million, respectively. Excluding costs related to the East transaction, full year 2019 and 2018 expenses were \$2.2 million and \$2.1 million, respectively.

Pre-tax realized gain was \$1.1 million for the year ended December 31, 2019, compared with a pre-tax realized loss of \$1.5 million in 2018. The 2019 gain resulted primarily from the sale of Rand's equity investment in Microcision LLC in the fourth quarter, partially offset by its 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 a decrease of \$4.0 million and an increase of \$780,000 for the years ended December 31, 2019 and 2018, respectively.

### **Selected Portfolio Highlights**

The following are new investments acquired as part of the East transaction. All include a subordinated note that provides current income.

- [\*\*Andretti Indoor Karting & Games LLC\*\*](#) (AIKG) offers go karting, games, rides and adventure activities at each of its locations in Marietta, Georgia; Orlando, Florida; and San Antonio, Texas. Their venues also offer food and a full service bar, catering to parties, meetings and special events. The investment consists of a term note that had a fair market value of \$4.4 million at December 31, 2019.
- [\*\*Filterworks Acquisition USA, LLC\*\*](#) is a licensed Florida general and mechanical contractor, providing spray booth equipment, frame repair machines and paint booth filter services. Since its founding in 1988, the Filterworks team has installed over 1,500 paint booths. The investment includes a subordinated note as well as Class A Units, collectively with a fair market value of \$2.9 million at December 31, 2019.
- [\*\*Hilton Displays Inc \(HDI\)\*\*](#) is a nationally recognized manufacturer of signage and branding products. Formed in 1981 and based in upstate South Carolina, the company is an industry leader with emphasis on primary brand identification, architectural, retail interior, wayfinding, and digital display products. The investment consists of a term loan that had a fair market value of \$1.2 million at December 31, 2019.
- [\*\*Mattison Avenue Holdings, LLC\*\*](#) provides venues for the beauty industry. Currently leasing salon suites in the Dallas, Houston and Tampa areas, Mattison Avenue provides facilities for beauty professionals looking to expand their business. The investment consists of promissory note that had a fair market value of \$1.0 million at December 31, 2019.

As of December 31, 2019, Rand's portfolio consisted of 32 active companies. At that date, the portfolio was comprised of approximately 59% in equity investments and 41% in debt investments, comparable with the mix at December 31, 2018.

## Webcast and Conference Call

Rand will host a conference call and live webcast today, March 9, 2020, at 1:30 p.m. Eastern Time to review its financial condition and results for the 2019 fourth quarter and full year, 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 4:30 p.m. ET on the day of the call through Monday, March 16, 2020. To listen to the archived call, dial (412) 317-6671 and enter replay pin number 13698315. 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 an externally-managed 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). The Company's investment objective is to maximize total return to its shareholders with current income and capital appreciation by focusing its debt and related equity investments in privately-held, lower middle market companies with committed and experienced managements in a broad variety of industries. Rand invests in early to later stage businesses that have sustainable, differentiated and market-proven products, revenue of more than \$2 million and a path to free cash flow or up to \$5 million in EBITDA. The Company's investment activities are managed by its external investment adviser, Rand Capital Management, LLC. 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 intention of Rand Capital and Rand Capital SBIC, Inc. ("Rand SBIC") to elect to be taxed as a RIC for U.S. federal tax purposes; the intention to declare and pay a special cash and stock dividend; the expected timing for the payment of the special dividend; the estimated amount of the Company's accumulated earnings and profits; the intention to adopt a new dividend policy that includes regular cash dividends to shareholders; the expected benefits of the transaction such as a lower expense-to-asset ratio for Rand Capital, availability of additional resources and an enhanced investment team; the competitive ability and position of Rand Capital; 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) 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 RIC for U.S. tax purposes; (2) uncertainty of the expected financial performance of Rand Capital; (3) failure to realize the anticipated benefits of the transaction; (4) the risk that the board of directors of Rand Capital is unable or unwilling to adopt a new dividend policy that includes the payment of regular cash dividends on a going forward basis; (5) evolving legal, regulatory and tax regimes; (6) changes in general economic and/or industry specific conditions; and (7) 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, 2019, later filed quarterly reports on Form 10-Q, the definitive proxy statement 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.

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

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**ASSETS**

Investments at fair value:

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

Affiliate investments (cost of \$19,035,446 and \$20,708,659, respectively)

Non-Control/Non-Affiliate investments (cost of \$25,584,017 and \$17,483,984, respectively)

Total investments, at fair value (cost of \$44,619,463 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 100,000,000 and 10,000,000, respectively; shares issued 15,196,367 and 6,863,034, respectively; shares outstanding of 14,655,321 and 6,321,9

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 2019: \$3.66; 2018: \$4.99)

### Total liabilities and stockholders' equity (net assets)

## Rand Capital Corporation and Subsidiaries Consolidated Statements of Operations

	For the Quarter Ended December 31,		For the Year Ended December 31,	
	2019	2018	2019	2018
<b>Investment income:</b>				
Interest from portfolio companies:				
Affiliate investments	\$ 190,861	\$ 225,648	\$ 823,565	\$ 741,432
Non-Control/Non-Affiliate investments	280,122	209,755	696,975	757,308
Total interest from portfolio companies	470,983	435,403	1,520,540	1,498,740
Interest from other investments:				
Non-Control/Non-Affiliate investments	58,410	16,897	166,556	37,614
Total interest from other investments	58,410	16,897	166,556	37,614
Dividend and other investment income:				
Control investments	-	60,000	-	60,000
Affiliate investments	13,125	142,419	320,806	318,324
Non-Control/Non-Affiliate investments	259,042	-	259,042	6,058
Total dividend and other investment income	272,167	202,419	579,848	384,382
Fee income:				
Affiliate investments	16,179	4,042	27,639	15,667

Non-Control/Non-Affiliate investments	<b>167,186</b>	9,564	<b>430,113</b>	170,551
Total fee income	<b>183,365</b>	13,606	<b>457,752</b>	186,218
<b>Total investment income</b>	<b>984,925</b>	668,325	<b>2,724,696</b>	2,106,954

**Expenses:**

Salaries	<b>76,790</b>	169,875	<b>621,290</b>	679,499
Profit sharing and bonuses	<b>115,000</b>	125,000	<b>115,000</b>	125,000
Employee benefits	<b>45,452</b>	45,977	<b>189,157</b>	194,818
Directors' fees.	<b>30,128</b>	36,627	<b>117,500</b>	128,750
Professional fees	<b>141,182</b>	186,386	<b>548,041</b>	407,159
Shareholders and office operating	<b>91,003</b>	53,173	<b>557,546</b>	230,050
Insurance	<b>7,232</b>	6,599	<b>38,302</b>	34,187
Corporate development	<b>15,814</b>	20,647	<b>67,441</b>	62,117
Base management fee	<b>85,483</b>	-	<b>85,483</b>	-
Other operating	<b>14,091</b>	11,102	<b>17,504</b>	21,092
	<b>622,175</b>	655,386	<b>2,357,264</b>	1,882,672
Interest on SBA obligations	<b>104,190</b>	78,594	<b>408,039</b>	311,000
Bad debt (recovery) expense	-	(50,342)	<b>5,413</b>	-
Total expenses	<b>726,365</b>	683,638	<b>2,770,716</b>	2,193,672
<b>Net investment gain (loss) before income taxes</b>	<b>258,560</b>	(15,313)	<b>(46,020)</b>	(86,718)
Income tax expense (benefit)	<b>158,175</b>	6,495	<b>39,677</b>	(18,312)
<b>Net investment gain (loss)</b>	<b>100,385</b>	(21,808)	<b>(85,697)</b>	(68,406)

**Net realized gain (loss) on sales and dispositions of investments:**

Control investments	-	-	<b>80,393</b>	-
Affiliate investments	-	(338,469)	<b>(472,632)</b>	(1,464,142)
Non-Control/Non-Affiliate investments	<b>1,510,000</b>	-	<b>1,510,000</b>	-
Net realized gain (loss) on sales and dispositions, before income taxes	<b>1,510,000</b>	(338,469)	<b>1,117,761</b>	(1,464,142)
Income tax expense (benefit)	<b>346,784</b>	(63,108)	<b>255,923</b>	(469,847)
Net realized gain (loss) on sales and dispositions of investments	<b>1,163,216</b>	(275,361)	<b>861,838</b>	(994,295)

**Net change in unrealized depreciation or appreciation on investments:**

Affiliate investments	<b>(2,793,687)</b>	438,975	<b>(3,970,007)</b>	608,207
Non-Control/Non-Affiliate investments	<b>3,017,636</b>	1,073,071	<b>(3,325)</b>	171,711

Change in unrealized depreciation or appreciation before income taxes	223,949	1,512,046	(3,973,332)	779,918
Deferred income tax expense (benefit)	6,198	278,366	(907,521)	111,715
Net change in unrealized depreciation or appreciation on investments	217,751	1,233,680	(3,065,811)	668,203
<b>Net realized and unrealized gain (loss) on investments</b>	<b>1,380,967</b>	<b>958,319</b>	<b>(2,203,973)</b>	<b>(326,092)</b>
<b>Net increase (decrease) in net assets from operations</b>	<b>\$ 1,481,352</b>	<b>\$ 936,511</b>	<b>\$(2,289,670)</b>	<b>\$ (394,498)</b>
<b>Weighted average shares outstanding</b>	<b>11,175,468</b>	<b>6,321,988</b>	<b>7,532,034</b>	<b>6,321,988</b>
<b>Basic and diluted net increase (decrease) in net assets from operations per share</b>	<b>\$ 0.13</b>	<b>\$ 0.15</b>	<b>\$ (0.30)</b>	<b>\$ (0.06)</b>

#### Adjusted Expenses Reconciliation – Unaudited

	For the Quarter Ended December 31,		For the Year Ended December 31,	
	2019	2018	2019	2018
Total expenses	\$726,365	\$683,638	\$2,770,716	\$2,193,672
Costs related to East transaction included above	81,186	103,000	605,777	103,000
<b>Adjusted expenses</b>	<b>\$645,179</b>	<b>\$580,638</b>	<b>\$2,164,939</b>	<b>\$2,090,672</b>

#### Non-GAAP Financial Measure:

*Adjusted expenses is defined as total expenses excluding costs related to the East transaction. Adjusted expenses is not a measure determined in accordance with generally accepted accounting principles in the United States, commonly known as GAAP. Nevertheless, Rand believes that providing non-GAAP information such as adjusted expenses is important for investors and other readers of Rand's financial statements, as it is used as an analytical indicator by Rand's management to better understand operating performance. Because adjusted expenses is a non-GAAP measure and is thus susceptible to varying calculations, adjusted expenses, as presented, may not be directly comparable to other similarly titled measures used by other companies.*

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Source: Rand Capital Corporation