



Operator: Greetings, and welcome to the Rand Capital Corporation Third Quarter 2020 Financial Results Conference Call. [Operator Instructions] Please note that this conference is being recorded.

I will now turn the conference over to our host, Deborah Pawlowski, Investor Relations. Thank you. You may begin.

Deborah Pawlowski: Thanks, Diego, and good morning, everyone. We certainly appreciate your interest in Rand Capital and for joining us for our third quarter 2020 financial results conference call. 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 discussing our results as well as the slides that will accompany our conversation today. If not, you can find them both on our website at randcapital.com.

If you are following along on the slide deck, and will 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 materially 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.

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

Pete Grum: Good morning, everyone. Thank you for your time today. As you all know, the COVID pandemic remains a part of our daily lives. We continue to work remotely and alternate everyone's presence in the office for the health and safety of our personnel. But I am pleased to say that even in this environment, we delivered solid financial performance during the third quarter. Net investment income was \$280,000 or \$0.11 per share.

We announced in September that Rand Capital established a 10b5-1 stock repurchase plan to facilitate the purchase of shares under our \$1.5 million share repurchase program. The 10b5-1 trading plan allows us to repurchase shares at times when we might not otherwise be able to because of self-imposed trading blackout periods and other securities laws. Under the plan during this quarter, we repurchased 2,097 shares of Rand stock at an average price of \$11.29 per share.

We are in a strong position with relatively significant liquidity of \$22 million, which is comprised of \$19 million in cash and \$3 million in available leverage from the SBA. With this liquidity, we intend to build our portfolio and continue to execute on our strategy.

I would mention that last week, we filed a preliminary proxy with the SEC for a special meeting of shareholders to approve new investment advisory and management agreements. The agreements are being renewed as a result of the change in ownership of Rand's investment adviser, Rand Capital Management. The terms are not changing, and the services provided by RCM and the investment processes are not changing. You can find the details of the change in ownership in the filing.

If you will turn to **Slide 4**. You can see that the debt investments now comprise 44% of total investments, an increase of 33% from a year ago. The shift in our portfolio is intentional, and we intend to elect to be a Regulated Investment Company for tax purposes, which requires us to distribute at least 90% of our qualified income to our shareholders. The intention is to grow our investment income to support a regular distribution. The remaining 56% of the portfolio are equity investments and primarily our legacy investments. As we continue our transformation, we will reduce these assets over time through various exit strategies.

On the investment side, during the quarter, we invested \$1.9 million and a 12% fixed rate promissory note with Science and Medicine Group, a new portfolio company. The note is due in 2023. Science and Medicine Group is a leading research and advisory firm serving the life science, analytical instrument, diagnostics, health care, radiology and dental industries. The group uses business intelligence and market research to help build their clients' product, strategy and marketing plans, then leverage their



digital audience to help grow their clients' business. We also invested \$1.1 million in 3 more publicly traded BDCs. This brings our total BDC portfolio to 8 investments. These investments are in companies that are much larger than Rand, and they provide a dividend and are liquid instruments that we can readily access for other opportunities that we find them.

If you turn to **Slide 5**, this demonstrates the increasing diversity and growth of our portfolio. With the investments we made this quarter, health care as a percentage of total investment increased 4 percentage points from the trailing sequential quarter, and the BDC investment fund increased 3 percentage points. We believe the increased diversity of our portfolio reduces our exposure to market risk and benefits us during the challenging economic times we find ourselves.

While we may not know the total impact, nor the duration, of the pandemic and resulting economic downturn may have our portfolio companies, we continue to actively engage with them and monitor their liquidity and operational status. The resiliency of our portfolio is encouraging, and frankly, amazing.

Turning now to **Slide 6**. You can see our top 5 portfolio companies, and this has not changed since last quarter. With the addition of the 4 companies I mentioned earlier, our portfolio value was \$41.7 million, with 42 companies at quarter end.

If you turn to **Slide 7**, I would like to give you an update on some of our portfolio companies. We have several companies that are actually performing quite well and perhaps even benefiting from the COVID-19 environment. Of course, there are a few companies that have been challenged as well. As you might expect, some of the companies that are doing well are directly tied to fighting the pandemic, and I would like to share more about 2 of them, SciAps and Rheonix.

As I discussed in the call last quarter, SciAps is a Boston, Massachusetts-based company that is a leading manufacturer of handheld analyzers that provide instant elemental analysis of many individual materials. They have partnered with Allied BioScience, who have developed an EPA-approved surface coating that can provide protection against viruses and bacteria on the surface, including the virus that causes COVID-19. SciAps has been chosen to examine the amount of coating present on surfaces and determine whether the coating is still present and active.

Rheonix, which we've talked about in the past as an Ithaca-based company, and its developed Encompass workstations that are fully automatic systems providing molecular testing for use in clinical research and applied testing laboratories. One of their recent develops is the COVID assay that has a fully automated test to detect SARS-CoV-2, the virus that causes COVID-19, directly from respiratory samples. The test is designed to operate on the Rheonix' Encompass MDx workstation that facilitate same-day test results for small and medium laboratories. I would encourage all of you to access their website, rheonix.com, as a way to keep up-to-date with their accomplishments.

Others have benefited because of the global work-from-home efforts to contain the environment. For example, OpenExchange has helped public companies, investment banks and professional investors keep their vital investor information flowing through with virtual videoconferencing and video streaming solutions. Their solutions have been used by some of the largest investment banks and has been the platform for many investor conferences.

Demand for Carolina Skiff has been driven by the surge in consumer interest in outboard marine activities. They offer lower price range fiberglass boats with outboard motors. The challenge has been keeping up with the demand while facing headwinds associated with manufacturing with reduced and staggered staff, addressing health and safety measures and managing their supply chain.

As a closing thought here on our portfolio, we are advancing the portfolio of composition, including determining actions to take on our equity-only investments as we pursue yield-producing investments and also dividend-paying equity investments.

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

Dan Penberthy: Thanks, Pete, and good morning, everyone. If you could please turn to **Slide 9**, you can see that the total investment income in the third quarter of 2020 was \$737,000, a 68% increase from last year's third quarter. This was largely due to the change in our portfolio profile to more debt investments



that resulted in 93% or a \$307,000 increase in portfolio interest income. As intended with our transformation, the externalization of the administration and management of the Rand portfolio reduced our cost by \$74,000 in the quarter. As a result, growing investment income coupled with reduced expenses, drove the net increase in net assets from operations of \$263,000 or \$0.10 per share.

The waterfall graph on **Slide 10** visually shows the impact of several items affecting the \$200,000 increase in NAV from the trailing second quarter. This growth was primarily due to the \$300,000 increase in net investment income, partially offset by unrealized depreciation on investments, and the 2,097 shares repurchased during the quarter. On a per share basis, NAV benefited by approximately \$0.01 per share from these share repurchases.

On **Slide 11**, we depict the waterfall of the change in NAV year-to-date. The cash portion of the special dividend, which was \$4.8 million, was the largest element driving this decline. This was offset by \$2.4 million in a net realized gain from a portfolio exit and \$1 million in net investment income. Additionally, we have repurchased 3,397 shares of stock during the year-to-date, which did reduce NAV by \$40,000 from the repurchases. However, on a per share basis, this contributed positively per share as we are able to purchase the shares at a discount to NAV.

If you will turn to **Slide 12**, let me review the strength of our balance sheet. At the end of the third quarter, we had \$19.1 million of cash on hand. Of that, \$9.7 million was available for corporate purposes, providing significant liquidity for us, and \$9.4 million is reserved for investments by the SBIC directly. Our total liquidity also includes \$3 million of available leverage, which is the remaining commitment from the SBA. The \$11 million currently owed to the SBA matures over a multiyear period that begins in 2022, when \$3 million is due.

As Pete noted, we are in an excellent position to grow our portfolio investments and drive investment income. And further, as part of RIC status, we plan to distribute a large part of that income to our shareholders in the form of cash dividends.

We expect to provide details regarding the dividend distribution for 2020 before year-end. We will remind you, however, that these are more complex calculations given our recent conversion from a C-corp tax status and also being our initial year of RIC testing.

We do plan to take a look at our dividend plans for 2021, and those should be released shortly. The distribution in 2020 will include both the element related to our net interest income, and also the capital gain portion related to the exits we had this year.

This completes our prepared remarks. Operator, please open the lines for questions.

Operator: [Operator Instructions] And our first question comes from Brad Davidson an Individual Investor.

Brad Davidson: I missed the first couple of slides. But in case this hasn't been addressed, regarding the recent funding round for ACV Auctions, I was wondering if you could add any color to that, like what you guys know on your end and how that impacts the valuation of ACV on the company's accounts going forward.

Pete Grum: I know, and am able to share, they had a press release about raising \$55 million and a new investor. And at this point, that's all I know, but you can read into that what you want. They've added some strength in their Board. They've added some investment professionals as employees who have had a history of taking companies public. And so that's about all that I can really share with you.

Brad Davidson: So, do you guys have some idea of how that impacts Rand's investment in them? I mean do they provide you some sort of information that would detail that information?

Pete Grum: We have not received anything formally from them.

Brad Davidson : Informally?

Pete Grum: There's nothing that I can share with you at this point. We will certainly take a look at it again when we hit the end of the year. But no, I actually don't have any numbers other than the amounts that went in.



Deborah Pawlowski: Brad, if I may have a stab, I just also want to point out and put in context that our position, while very nice in our portfolio, is 13.1% of our portfolio, we hold much less than 1% of ACV.

Brad Davidson: Well, that's pretty sizable.

Deborah Pawlowski: Well, I just want to have it in context though.

Brad Davidson: Even prior to the, I believe it was the CFO they brought on, I've heard rumblings. And I'm not entirely sure when, but at this point, it's almost inevitable unless the IPO market is greater. But are they required to provide anything to you guys as far as a valuation?

Pete Grum: I don't believe so. We have a good relationship with the company. It's a fabulous company. It's going to be great for Buffalo, and they're doing very, very well.

Dan Penberthy: I would encourage you to take a look at the Buffalo Business First article in today's paper, and it's been reported that ACV has closed on a \$55 million cash injection, at a \$1.75 billion valuation. The writer also previously reported that the prior rounds were done at a \$1.5 billion valuation. Of course, we don't have insight into that, but these are what's being reported by our major business paper in Buffalo.

Brad Davidson: Yes, I'm a Buffalo guy too. So yes, I was aware of the \$1.5 billion. I wasn't aware that they had placed a \$1.75 billion, and so, that certainly adds a little color to that.

Operator: Our next question comes from Carlo D'Angelo an Individual Investor.

Carlo D'Angelo: I'm just curious to know, I was talking to a friend of mine who also has some shares in Rand, and he was telling me that we could expect a dividend payout of \$7.50 for every share that we had, or something crazy like that. Is that true?

Pete Grum: If your friend figured that out, it didn't come from us. We are required when we filed for RIC status, and that's the tax filing status, which is our intention, to distribute at a minimum 90% of our net investment income. To date, that doesn't equal anywhere close to \$7 a share.

Carlo D'Angelo: Okay. All right. And then I have another follow-up question. Would we be able to reinvest those dividends into whatever payout you give us? Would we be able to reinvest those into Rand?

Pete Grum: We do not, at this point, have a dividend reinvestment plan. That's a formal plan. Of course, you can take anything you want and purchase in the open market.

Operator: [Operator Instructions] Our next question comes from Sam Rebotsky with SER Asset Management.

Sam Rebotsky: Yes. Based on this third quarter, what would the dividend be available to shareholders?

Pete Grum: We have not done that computation, but we have started it. And as far as what it's going to be, and it's a fairly complex and new for us, but as Dan said, there's 2 parts. There's a capital gains part and there's a net investment income. In a simplistic way, if we earned \$0.11 every quarter, that would be \$0.44, and we would have to distribute at a minimum 90% of that. So I don't know what that is, like \$0.38, or somewhere along that.

Sam Rebotsky: Okay. Now as far as future investments, the success we've made with ACV and various other investments, do we have a dollar amount that we expect to allocate to these type of investments relative to income investments?

Pete Grum: We don't have a formal hard and fast criteria. We are transitioning our portfolio to more income investments. We are not really looking at the kind of the early-stage equity-only investment at this point, although we do have some and we'll always have some, but we don't have a formal strategy on that. You will find that, in general, when we're looking at debentures, and there will be, in most cases, a portion also allocated to the equity piece.



Sam Rebotsky: And as far as the East West investing in some of the same investments we're investing, have we created a dollar amount to allocate what they come into and what we come into to future investments?

Pete Grum: No, we have not, Sam.

Sam Rebotsky: Okay. So they will only come into what we come into or jointly, I guess?

Pete Grum: I think you're talking about East Asset Management?

Sam Rebotsky: Yes.

Pete Grum: I'm not privy to what they invest in, but it's a large, robust organization, and they own sports teams, and they own hotels, and they own oil and gas. And I'm sure they do other investments that we are not aware of, nor do we participate.

Sam Rebotsky: I think before you went to this income approach, you spoke of getting larger and having more investments into Rand. Is there any plans right now to increase the size of investments, although your stock is selling at a discount from the net asset value? How is that working? Because this was one of the approaches that you wanted to take to increase the size of investments.

Pete Grum: Yes. That is in place, and we are looking. And I think in the next week or so, you'll hear us announce at least one larger investment that we've made and are continuing to pursue larger investments.

Sam Rebotsky: Hopefully, this comes into the stock valuation and people give you more credibility because your stock is now trading at a significant discount from your net asset value. So good luck.

Pete Grum: Thanks, Sam.

Operator: There are no further questions at this time. I'll turn it back to management for closing remarks.

Pete Grum: Thank you for joining us this morning and for your interest in Rand. We look forward to updating all of you on our fourth quarter and full year results in March. Have a great day and stay healthy.

Operator: Thank you. This concludes today's conference. All parties may disconnect. Have a good day.