Operator: Greetings. Welcome to the Rand Capital Corporation Fourth Quarter 2021 Financial Results Call. [Operator instructions] At this time, all participants are in a listen-only mode. Please note, this conference is being recorded.

I will now turn the conference over to your host, Craig Mychajluk, Investor Relations. Thank you. You may begin.

Craig Mychajluk: Thank you, and good afternoon, everyone.

We appreciate your interest in Rand Capital and for joining us today for our fourth quarter 2021 financial results conference call. On the line with me are Dan Penberthy, our President and Chief Executive Officer; and Margaret Brechtel, our Executive Vice President and Chief Financial Officer.

A copy of the release and slides that accompany our conversation are available on our website at randcapital.com. If you are following along on the slide deck, please turn to Slide 2, where I'd like to point out some important information.

As you are likely aware, we may make some forward-looking statements during this presentation. 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 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 reconciliations 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 Dan. Dan?

Dan Penberthy: Thank you, Craig, and good afternoon, everyone.

2021 was an exceptional year for Rand Capital, one in which we achieved exceptional growth and further demonstrated the benefits of transforming the composition of our portfolio. We are proud of the accomplishments we have made and appreciate the support of our entire team, particularly as we implemented our leadership transition and Board changes during the fourth quarter.

Our multiyear strategy to transition Rand into a dividend-paying business development company with a portfolio focus on income-producing instruments has proved advantageous. In so doing, our investment income grew 31% to $4.1 million, which allowed us to pay four regular quarterly dividends and the supplemental dividend in 2021.

The fair value of our portfolio increased 60% to $64.1 million, and our net asset value was up 32% or $23.54 per share from year-end 2020. We put our capital to work by investing $19.7 million into income yielding investments, which included the shift towards more debt instruments. We paid down the $11 million Small Business Administration loan and distributed $4.6 million in total dividends to shareholders. As a result of paying off the SBA loan and subsequently surrendering our SBA license—or SBIC license, we have simplified our reporting and regulatory requirements, which we do believe will help us scale the business in the future.

If you turn to Slide 4, we will highlight the positive progress we have made in shifting our investment portfolio composition. The 60% increase in fair value reflects the impact of new investments and valuation adjustments that fall in line with our overall investment plan. At year-end, our 34 portfolio companies comprised of approximately 46% in fixed-rate debt investments, 32% in equity investments and 22% in dividend paying publicly traded BDCs and ACV Auctions stock.

Our strategy includes making larger investments into portfolio companies, which does offer better scaling opportunities. Of the $19.7 million we invested in 2021, $17.6 million was made in only eight transactions. This average investment of about $2.5 million was nearly five times greater than our historical initial investment amounts. The remaining $2.1 million was invested in other publicly traded BDCs during the year, which does yield increased dividend income and provides more liquidity for financial flexibility and future funding transactions.

We exited five equity holdings in private companies that did net $2.7 million and sold public equities for an additional $3.1 million in gains, totaling $5.8 million in gains during the last year. We also received $4.9 million in repaid loans from our debt portfolio.

Our fourth quarter transactions are highlighted on slide 5. The largest investment during the fourth quarter was a $2.3 million equity investment in Nailbiter, Inc. Though an equity investment, this does have the economic traits of a 10% subordinated secured promissory notes with warrants for preferred stock. Nailbiter captures and converts real shopping behavior into actionable metrics, offering a competitive advantage to global CPG or consumer packaged goods companies.

We also funded a $1.75 million investment to Applied Image, Inc., which consists of a 10% senior subordinated notes and equity warrants. Applied Image in Rochester, New York, is a global supplier of precision image optical components and calibration standards for a wide range of industries and applications.

The two follow-on investments in the quarter were provided to Seyberts Billiard Supply, a leading global billiard e-retailer; and Filterworks USA, an authorized distributor for leading equipment manufactures in the collision repair industry.

We sold approximately 98,000 shares of ACV during the quarter at an average price of $20.43 per share, for total proceeds of $2.0 million, almost all of which was represented as a gain.

As a reminder, any proceeds for us above our $163,000 initial investment will be a capital gain and treated as such as it relates to any regulated investment company or RIC-based distribution calculations.

At year-end, we still hold 442,934 shares of ACV, which were valued at $18.81 per share. ACV recently announced what appears to be positive acquisitions and earnings, which we are hopeful will help the stock to now recover from its current trading levels.

The charts on Slide 6 illustrate the diversity in our portfolio and the change in industry mix since 2020 year-end. With the investments we recently made, and the impact of investments and fair value changes, professional services, and healthcare, saw notable changes, while most of the other industries were within a few percentage points. We value the diversity of our portfolio as we feel this mitigates market risk impacts.

Slide 7 lists our top five portfolio companies at year-end, which collectively represent almost half of our total portfolio. Tilson has moved to the top spot from last quarter, largely due to the valuation changes in stock selling of ACV. Although ACV still ranks high at number two.

With that, I'll turn it over to Margaret to review our financials in greater depth.

Margaret Brechtel: Thanks, Dan, and good afternoon, everyone.

Slides 9 and 10 provide an overview of our financial summary and operational highlights for the fourth quarter and full year period. Total investment income for the quarter was $1.2 million, a 17% increase over last year, demonstrating increased interest income from portfolio companies and higher dividend income.

Total expenses were $923,000 compared to $526,000 in the prior year period. The Company accrued capital gains incentive fees of $86,000 during the fourth quarter, and there were no similar accrual of fees in the prior year period. Excluding the capital gains incentive fees, adjusted expenses, which is a non-GAAP financial measure, were $837,000. This was up $311,000, mostly due to an increase in the base management fees payable to Rand's investment adviser, resulting from higher asset values year-over-year, and an increase in interest expense as we prepaid two additional months of interest and expensed prior capitalized loan fees as part of our SBA payoff.

Net investment income was $320,000 or $0.12 per share, and on an adjusted basis, which is a non-GAAP financial measure, was $0.16 for the fourth quarter of 2021. For the full year period, total investment income increased 31% to $4.1 million due to similar reasons as the fourth quarter.

Total expenses were up year-over-year, largely due to the accrual of $4.2 million of capital gains incentive fees. These fees reflect the realized gains from the sale of Rand's investment in GiveGab and Centivo Corporation and increase in unrealized depreciation, mostly related to ACV Auctions, Open Exchange and Tilson Technologies.

Excluding the capital gains incentive fee accrual, adjusted net investment income per share was $0.62, compared with $0.68 per share for 2020. The prior year period did reflect a tax benefit related to the intent to elect status as a regulated investment company for U.S. federal income tax purposes. Even with the increase in expenses during the year, net assets from operations increased significantly to $15.8 million or $6.12 per share.

Slide 11 provides a waterfall graph for the change in NAV for the year. Net assets at December 31, 2021 were $60.7 million, up 32% year-over-year. The increase reflects higher fair market value of Rand's investment in Open Exchange, Tilson Technologies, Empire Genomics and SciAps; the sale of ACV stock and increase in its share price and a loan payoff from Mercantile Adjustment Bureau.

Slide 12 highlights the deployment of our strategy, which has been supported by a strong balance sheet. Cash and cash equivalents at year-end were $834,000, which reflected the $11 million in SBA debt that was repaid during the fourth quarter of 2021, as well as new investments and dividend payments during the year. We repurchased a small amount of shares during 2021. As highlighted in the table, we have nearly $14 million of liquid BDC and ACV stock, which can provide near-term funding capital for investments.

During 2021, Rand paid a total of $4.6 million in dividends, which included four regular quarterly dividends of $0.10 per share, a $0.04 per share supplemental dividend and $1.33 per share dividend for 2020 that was paid in January of 2021. Our portfolio transformation to contain more income producing investments is expected to support an increased dividend level. In line with that expectation, we announced on February 28 that we raised the regular quarterly cash dividend by 50% to $0.15 per share for the first quarter of 2022. This dividend increase takes into account our conservative expectation of the income from our current portfolio and our initial tax-based expense projections.

With that, I will turn the discussion back over to Dan.

Dan Penberthy: Thanks, Margaret. We are excited about the future of Rand. Our strategy is to continue to grow and scale Rand to drive total returns and create shareholder value. We have a number of focused action items, many of which are a continuation of the strategic initiatives that have been well underway as part of our transformation. We have positioned the Company for financial flexibility. This will enable us to continue to expand our portfolio and be an active investor in income-producing assets. We are prudently monitoring our equity portfolio mix to provide potential additional capital gains over time when these are made available. Ultimately, we expect our actions to contribute to an increasing net investment income and to support our growing dividend.

Thank you for joining us today and for your interest in Rand Capital. We look forward to updating all of you on our first quarter 2022 results, which will be reported in May. Have a great day.

Operator: This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation and have a great day.