



Operator: Greetings. Welcome to the Rand Capital Corporation First Quarter 2022 Financial Results Conference Call. Please note, this conference is being recorded.

I will now turn the conference over to 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 First Quarter 2022 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 is available at randcapital.com.

If you're following along in 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 and 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'll 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'll hand the discussion over to Dan. Dan?

Dan Penberthy: Thank you, Craig, and good afternoon, everyone. We kicked off the year with a strong first quarter. We continued to execute our strategy to position our portfolio to grow investment income and distribute our earnings to shareholders.

We delivered 11% growth in total investment income by leveraging the significant investments made in 2021, which had approximately \$20 million in portfolio additions and are now reaping the benefits of our improved mix of interest-yielding debt instruments. We paid a regular quarterly cash dividend of \$0.15 per share during the first quarter, which represents a 50% increase over the regular quarterly dividends in 2021. On April 28, Rand declared its regular quarterly cash dividend distribution of \$0.15 per share, again, this being for the second quarter.



Other notable highlights during the quarter included the election of a new independent Board member at our April Annual Meeting. Cari Jaroslowsky enhances our Board expertise with her significant finance and operations knowledge and her broad SEC experience. Rand's Board of Directors also renewed the share repurchase program, which permits the purchase of up to 1.5 million in additional Rand common stock. This renewed program expires on April 21, 2023.

If you turn to **Slide 4**, you can see our portfolio mix between debt and equity and the changes during the first quarter. As of March 31, 2022, our portfolio consisted of investments in 33 companies, down one since 2021's year-end. The fair value of those investments totaled \$62.4 million, which contracted 3%, primarily due to the changes in ACV Auctions' market value and the impact of net new investments and payoffs.

At quarter-end, the portfolio comprised approximately 48% in fixed rate debt investments, 33% in equity investments in private companies, 19% in dividend-paying publicly-traded BDCs and our ACV Auctions securities. We have made progress in shifting our investment portfolio composition towards more debt instruments, and we expect that trend to continue as we execute our strategy.

Also, during the quarter, we made two follow-on investments that totaled \$542,000, exited one position and sold public securities. Those transactions are highlighted on **Slide 5**. The largest follow-on investment during the period was a \$318,000 debt investment in Dealer Solutions & Design, raising the balance of our term note to \$3.1 million. This note accrues at 14%, including a 12% current pay and a 2% PIK accrual.

In addition, we continued to hold our \$1.1 million equity investment in the Company, which consists of both preferred and common shares. Established in 2005, DSD was the first company to create the concept-to-completion approach to fixed operations of new and renovated auto dealership facilities, basically the back of the house of an auto dealership.

We also funded a \$224,000 equity investment in ITA Acquisitions, which consisted of Class A preferred units and Class B units. ITA manufactures a broad variety of window covering components and finished window treatments, including wood, faux wood, fabric shades, shutters, and blinds for residential and commercial applications.

We exited our investment in SocialFlow, a long-held equity investment, and benefited from this exit value in excess of our fair value. In addition, during the quarter, we sold public equity investments, including some ACV securities and BDC stock holdings, to generate cash for both working capital and future debt instruments. We sold approximately \$37,000 shares of ACV during the period, at an average price of \$13.82 per share, for a net realized gain of approximately \$500,000.

As a reminder, any proceeds above our approximately \$100,000 remaining cost will be a capital gain and treated as it relates to any potential regulated investment company or RIC-based



income and capital gain distribution calculations. At quarter end, we still hold 405,934 shares of ACV, which represented approximately 10% of our total portfolio's fair value.

The charts on **Slide 6** illustrate the diversity in our portfolio and the change in industry mix during the first quarter. With the impact of recent investments and exits and fair value changes, Professional Services is now our largest industry classification at 24%, with software right behind at 23%. The ranking of the other industries did not significantly change. We value the diversity of our portfolio as we feel this mitigates market risk impact.

Slide 7 lists our top five portfolio companies at quarter-end, representing almost half of our total portfolio. Since last quarter, the two major changes were DSD and Caitec, which swapped places given our recent investments in DSD and ACV's decline in fair value. ACV now represents 10% of the total portfolio, down from 13% last quarter, which is an impact following our stock sale and the resulting change in the stock price as well. ACV still ranks high, though 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. I will start on **Slide 9**, which provides an overview of our financial summary and operational highlights for the first quarter of 2022.

Total investment income for the quarter was \$1.1 million, up 11% over last year, reflecting increased interest income from portfolio companies. The number of interest-yielding companies contributing to current investment income has continued to increase over the last 12 to 18 months due to a focus on investments and interest yielding instruments in alignment with our investment objective and strategy.

Total expenses were \$345,000 compared with \$3.2 million in the prior-year period. Capital gain incentive fees for our external investment adviser resulted in a credit of \$240,000 compared with \$2.6 million in expenses in the prior-year period. Excluding the capital gains incentive fees, adjusted expenses, a non-GAAP financial measure, were \$585,000 for the quarter, up 3% or less than \$20,000. Reflected in that amount were higher base management fees, payable to Rand's investment adviser, resulting from a change in asset values year-over-year and higher professional fees and director fees. These increases were partially offset with the elimination of interest expense on our SBA obligations, paid off in full in December of 2021.

Net investment income was \$772,000 or \$0.30 per share. On an adjusted basis, which is a non-GAAP financial measure, net investment income was \$0.21 per share for the first quarter of 2022, up from \$0.17 per share in last year's period.

Slide 10 provides a waterfall graph for the change in net asset value for the quarter. At March 31, 2022, net assets were \$59.9 million, down slightly since 2021 year-end. The change was primarily attributable to the change in ACV Auctions' market value, offset by new investments,



a smaller number of valuation adjustments, and the change in the capital gain fees due to our external investment adviser. As a result, the net asset value per share was \$23.23 at March 31, 2022, compared with \$23.54 at December 31, 2021.

Slide 11 highlights the deployment of our strategy, supported by a strong balance sheet. Cash and cash equivalents at quarter-end were \$597,000. We did not repurchase any shares during the quarter.

As Dan mentioned, the Board of Directors renewed the share repurchase program, which replaced the 2021 plan. We hold nearly \$12 million of liquid BDC and ACV auction stock, which can provide near-term funding capital for investments, as we demonstrated this past quarter.

During the first quarter, Rand paid a total of \$387,000 in dividends, and the Board maintained the per share dividend level for the second quarter of 2022 at \$0.15, which will be paid in mid-June.

With that, I turn the discussion back to Dan.

Dan Penberthy: Thanks, Margaret. The first quarter demonstrated the continued progress and execution of our strategy. We are confident in our plan, and we do believe we can continue to replicate our success well into the future.

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

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

Note: This transcript has been edited slightly to make it more readable. It is not intended to be a verbatim recreation of the Rand Capital Corporation (RAND) financial results teleconference and webcast that occurred on the date noted. Please refer to the webcast version of the call, which is available on the Company's website (randcapital.com), as well as to information available on the SEC's website (www.sec.gov) before making an investment decision. Please also refer to the opening remarks of this call for RAND's announcement concerning forward-looking statements that were made during this call.