Operator: Greetings. Welcome to Rand Capital Corporation Fourth Quarter Fiscal Year 2023 Financial Results. [Operator Instructions] Please note, this conference is being recorded. I will now turn the conference over to Craig Mychajluk, Investor Relations. Thank you, Craig. 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 and full year 2023 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 generally accepted accounting principles. We have provided reconciliations of non-GAAP measures with comparable GAAP measures in the tables that accompany today's earnings 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 delivered another strong year of results as we continue to scale the business through the successful execution of our strategy.

We entered 2023 with a strong and flexible balance sheet that was supported by multiple sources of capital. During the year, we monetized some equity investments, exited some of our publicly traded securities and had loan repayments that provided approximately $10 million of cash proceeds. In addition, we drew down over $13 million from our credit facility.

In total, we then put more than $20 million of available cash to work during 2023, primarily in income producing investments. Our debt portfolio now makes up 64% of the total mix compared with 56% at the end of 2022, which has resulted in an improved portfolio yield and driving total investment income growth of 11% for the quarter and 27% for the full year period.

This strong performance enabled us to increase our return to shareholders as highlighted on **Slide 4**.

During 2023, we paid total dividends of $1.33 per share, which included a $0.38 per share special dividend that was paid in the fourth quarter. Our aggregate total dividends represented an increase of 60% over our 2022 dividends paid and 3x growth over 2021. I would like to also highlight that during the second quarter of 2023, we raised our regular quarterly cash dividend by 20% or $0.05 per share. We recently announced that our first quarter 2024 dividend will also be at the same $0.25 per share amount.

At year-end, having put our capital to work and distributing $3.4 million in cash dividends to shareholders, we still had over $19 million in total availability including our cash on hand, line of credit availability, and highly liquid publicly traded shares. These funds are available for future liquidity for investment opportunities that will provide higher yields.

If you turn to **Slide 5**, you can see our portfolio mix between debt and equity and the changes during the past year. At year-end, our portfolio consisted of investments with a fair value of $77.1 million across 30 portfolio businesses. This was up $15.6 million, or 25%, from December 31, 2022, and reflected new and follow on investments and valuation adjustments in multiple portfolio companies; and as will highlight later, we also successfully sold some of our investments.

The portfolio comprised approximately 64% in debt investments, which had an annualized weighted average yield of 13.6%. The remaining mix was comprised 27% in equity investments in private companies and 9% held in publicly traded equities, consisting of our other BDC investments and our ACV Auctions stock.

During the fourth quarter, we completed two follow-on investments that are highlighted on **Slide 6**. The largest investment totaled $2.2 million to BMP Food Service Supply. FSS is out of Utah, and provides design, distribution and installation services for commercial kitchens, renovations and new builds. This follow-on debt investment was subsequently partially offset as FSS made a loan principal payment of $0.6 million later in the quarter. Rand's total debt and equity investment in FSS had a fair value of $7.4 million at year-end.

The other transaction was a small equity investment of $73,000 in Caitec.

The bottom half of the slide highlights some of the notable full year investments and exits. As I mentioned earlier, we invested a total of $20.3 million in 2023. This was across nine transactions, which largely consisted of interest yielding assets.

Our portfolio investment company, DSD, did get sold during the second quarter of 2023, which resulted in the full repayment of Rand's subordinated debt and sale of our preferred equity investments. In total, we received $6.7 million of proceeds, which included a net gain of $2.5 million.

The other notable transaction was that we had sold some of our ACV Auctions public securities for $1.7 million in gains during the year. At year-end, we still held almost 195,000 shares of ACV, which does represent approximately 4% of our portfolio's total fair value. We will continue to evaluate these holdings as we consider our future liquidity needs.

The charts on **Slide 7** illustrate the diversity in our portfolio and the change in industry mix during the year. Given the impact of new and follow-on investments, along with other fair value changes, we saw notable changes in this industry mix.

Professional services, which has been our largest industry mix, increased 11 percentage points to 42% of the total. On the other end, automotive and consumer products saw mix declines, and there were a few other smaller industries that were adjusted by a percentage point. Overall, we continue to value the diversity of our industry mix which is represented across this total portfolio.

Slide 8 lists our top 5 portfolio companies at year-end. Tilson continues to remain the largest fair value investment at $10.6 million or 14% of our total portfolio. The one change was with FSS moving up to the number two ranking following the fourth quarter follow-on investment. Overall, the top five represented 45% of our total portfolio at year-end.

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 **Slides 10 and 11,** which provide an overview of our financial summary and operational highlights for the 2023 fourth quarter and full year period.

Total investment income for the quarter was $1.9 million, up 11% over last year, driven by a 47% increase in interest income. For the full year, total investment income grew 27% to $7.3 million, which reflects the new debt instruments that we originated from six portfolio companies over the last year. Overall, the number of portfolio companies contributing to investment income was 26 compared with 24 at the end of 2022.

For both periods we did experience lower dividend income, which will fluctuate based upon the profitability of certain portfolio companies and the timing of the distributions or the impact of new investments or divestitures. We did receive a large prior year dividend from a portfolio company, which did not occur in 2023, and the sale of the company's investment in DSD during the second quarter of 2023 also impacted this year’s dividend level.

Total expenses were approximately $1.0 million during the fourth quarter compared with $371,000 in the prior-year fourth quarter. Adjusted expenses, which exclude accrued capital gains incentive fees and is a non-GAAP financial measure, were $950,000 compared with $539,000 in the fourth quarter of 2022. The change reflects a $293,000 increase in interest expense on borrowings under the senior revolving credit facility entered into in June of 2022 to fund growth.

Full year total expenses were $4.2 million compared with $1.1 million in 2022. Again, when excluding the accrued capital gains incentive fees, total adjusted expenses were up for the year largely due to the usage of the credit facility.

Fourth quarter net investment income was $962,000, or $0.37 per share, compared with $1.2 million, or $0.48 per share, in last year's period. On an adjusted basis, which is a non-GAAP financial measure, and excludes the capital gains incentive fee accrual expense, net investment income was $0.40 per share compared with $0.41 per share in last year's period.

For the full-year period, net investment income per share was $1.15 compared with $1.72 per share in 2022. Excluding the capital gains incentive fee accrual, which is a non-GAAP financial measure, adjusted net investment income per share increased 11% to $1.46.

I'm going to move on to **Slide 12,** which provides a waterfall graph for the change in net asset value for the year. Net assets at December 31, 2023, were $60.8 million, up 5% from the end of 2022. The change reflects the net investment income along with realized gains and the net change in unrealized appreciation, which more than covered the $3.4 million in dividend distributions to shareholders during the year. As a result, the net asset value per share at December 31, 2023, increased to $23.56 compared with $22.36 at year-end 2022.

As highlighted on **Slide 13**, we continue to have a strong balance sheet and significant liquidity that positions us well for future investments. Cash at year-end was approximately $3.3 million. We held approximately $7.4 million in liquid BDC and ACV Auctions shares, which can provide near-term funding capital for investments, as we have demonstrated in past periods. In addition, based on our borrowing base formula, Rand had $8.8 million in availability under the senior secured revolving credit facility at December 31, 2023. In total, our liquidity, counting these 3 sources, is over $19 million.

Our portfolio transformation to include more income producing investments is expected to support an increased dividend level over time. In line with that expectation, we announced during the second quarter of 2023 that we raised the regular quarterly cash dividend by 25% to $0.25 per share, and then on a full year basis increased the dividend to $1.33 per share.

On February 26, 2024, Rand declared its regular quarterly cash dividend distribution of $0.25 per share for the first quarter of 2024. The dividend will be distributed on or about March 29, 2024, to shareholders of record as of March 13, 2024.

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

Dan Penberthy: Thanks, Margaret. Our strategy is to continue to grow and scale our business by focusing on debt and related equity investments in privately held, lower middle market companies to drive investment income growth in order to increase the dividend paid.

We believe the combination of our current sources of capital with potential proceeds from portfolio exits and prospective investment income provide us the liquidity that will enable us to add new investments to our portfolio and reinvest in existing portfolio companies that demonstrate continued growth potential.

Equally important to our future growth have been the efforts of our external investment advisors, Rand Capital Management or RCM. We believe that their reputation and experience in the investment community provides a competitive advantage in originating quality investments that meet our investment objective, which is to generate current income and when possible, capital appreciation, by targeting opportunities with favorable risk-adjusted returns. They have been leveraging their vast network of referral relationships that has resulted in a solid pipeline of investment opportunities.

Going forward, our initial investment in any one portfolio company is expected to be in the range of $2 to $4 million, with a focus on current cash yields in order to achieve our income producing goals.

Ultimately, with the support of our liquidity position, we believe we can continue to replicate our past success and drive strong returns for our shareholders.

Thank you for joining us today and for your continued interest in Rand Capital. We look forward to updating all of you on our first quarter 2024 results, which will be reported in May. We hope you have a great day.

Operator: Thank you. This will conclude today's conference. You may disconnect your lines at this time, and thank you for your participation.

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.