



Craig Mychajluk: Thank you, and good afternoon, everyone. We appreciate your interest in Rand Capital and for joining us today for our second 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 are following along in the slide deck, please turn to Slide 2, where I would 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 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 reconciliation 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 delivered another strong quarter with total investment income growth of 67%, which reflected our focused investment strategy and significant debt portfolio expansion over the past year. We paid a cash dividend of \$0.15 per share during the second quarter, and at the end of July, Rand declared its quarterly cash dividend of \$0.15 per share again this being for the third quarter.

Our strategy is focused on continued portfolio expansion into income-producing assets to drive investment income and future dividend growth. In support of that strategy, we added a new source of capital by securing a \$25 million credit facility during the quarter. Of this facility, we have approximately \$21 million available based on our quarter-end borrowing formulas.

In addition to this increased liquidity, this facility provides greater flexibility and an increased funding commitment than our previous credit arrangement with the SBA, which, as a reminder, was repaid in full during the fourth quarter of 2021. In addition, during the quarter, we exited some of our publicly traded securities, and also monetized some equity investments to fund our \$2.2 million follow-on debt investment. I will talk to the specific portfolio changes in a moment.

If you turn to Slide 4, you can see our improved portfolio mix between debt and equity and the changes during the second quarter. Of note, we crossed a milestone, having more than half of our portfolio now being comprised of fixed rate debt investments as we ended the quarter at 55%, up from 48% just a quarter ago. We have made significant progress in shifting our



investment portfolio composition towards more debt. With these instruments, we expect that trend to continue as we execute our strategy.

The rest of the portfolio is comprised of 35% equity investments in private companies and 10% in dividend-paying publicly traded BDCs and, of course, our ACV Auctions securities. The fair value of our investments totaled \$59 million, which contracted 6%, primarily due to the changes in ACV Auctions market value and stock sales, net of the noted follow-on investments. As of June 30, 2022, our portfolio consisted of investments in 29 companies, down four from the sequential first quarter as we have exited two smaller equity positions and two of our BDC investments. These transactions are highlighted on Slide 5.

We utilized the cash from our exit and stock sales to fund our follow-on debt investment in Seybert's Billiard Corporation, making Seybert's the largest Rand interest-yielding debt holding with an approximate \$5.6 million cost basis. This note accrues at 14%, which includes a 12% current pay and a 2% PIK accrual.

Founded in 1998, Seybert's carries a variety of premium billiard equipment and is the largest distributor of Predator billiard cues in the U.S. They have developed one of the leading e-commerce platforms for the billiard category and are known for their quality products and service. With the capital infusion and Rand's funding, Seybert's acquired a pool cue manufacturer in the Midwest.

During the quarter, we also exited our equity investment in Microcision, which did result in a realized gain of \$190,000. We also took a very small loss of approximately \$23,000 on New Monarch Machine Tool when the company commenced bankruptcy proceedings.

We sold public equity investments to generate cash during the quarter. This included a gain of \$73,000 on the sale of the shares of Golub Capital BDC and a \$98,000 gain on the sale of Owl Rock Capital shares.

We have also continued to trim our holdings in ACV by selling 86,000 shares during the quarter at an average price of \$14.24 per share for a net realized gain of approximately \$1.2 million. As a reminder, any proceeds above our approximate \$87,000 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 held 319,934 shares of ACV, and this represented approximately 4% of our total portfolio's fair value.

The charts on Slide 6 illustrate the diversity in our portfolio and the change in industry mix we made during the second quarter. With the impact of recent investments and exits and fair value changes, Consumer Products increased to a 17% mix with BDC stocks contracting to 7% and Software to 18%. The percentage mix of other industries did not significantly change. We continue to value this diversity of our portfolio as we do feel this mitigates market risk impact.

Slide 7 lists our top 5 portfolio companies at quarter end, representing almost half of our total portfolio. Since last quarter, the major changes were Seybert's moving into the top 5 ranking at now the #2 spot based on our recent investment, and ACV moving out of the top 5, giving the stock sales and market value adjustments at the end of the quarter. The other 4 positions noted were fairly consistent with the prior periods.



With that, I'll turn it over to Margaret, who will 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 second quarter of 2022.

Total investment income for the quarter was \$1.4 million, up 67% over last year, reflecting increased interest income from portfolio companies and higher dividend income. The number of interest-yielding companies contributing to the current investment income has increased over the last 12 to 18 months due to a focus on making investments in interest yielding instruments in alignment with our investment objective and strategy.

A reduction in the value of Rand's publicly held securities impacted accrued capital gains incentive fees to the external investment adviser, resulting in a credit of \$663,000 for the second quarter of 2022 compared with \$1.1 million of expense for the second quarter of 2021. As a result, total expenses were a credit of \$96,000 during the second quarter compared with an expense of \$1.6 million in the prior year quarter.

Excluding the capital gains incentive fees, adjusted expenses, a non-GAAP financial measure was \$567,000 for the quarter, up only 1% from the prior year period. Reflected in that amount were higher professional fees, which were largely offset with the elimination of interest expense payments for the SBA obligations that were paid off in full during December of 2021.

Net investment income was \$1.4 million or \$0.55 per share for the second quarter compared with a loss in the prior year quarter. On an adjusted basis, which is a non-GAAP financial measure, net investment income was \$0.29 per share for the second quarter of 2022, up almost 3x over the \$0.10 per share in the last year's quarter.

Slide 10 provides a waterfall graph for the change in net asset value for the quarter. At June 30, 2022, net assets were \$57.7 million, down slightly since the first quarter. The change was primarily attributable to the change in ACV Auctions market value and stock sales, partially offset by the follow-on debt investments during the quarter. As a result, the net asset value per share was \$22.34 at June 30, 2022, compared with \$23.23 at March 31, 2022.

Slide 11 highlights our strong balance sheet. Cash and cash equivalents at quarter end were \$1.2 million, up 43% since 2021 year-end. We still held more than \$6 million of liquid BDC and ACV Auctions stock at the end of the second quarter. These investments can provide near-term funding capital for investments as we've demonstrated this past quarter.

Also, as Dan highlighted, on June 27, 2022, we closed on a \$25 million senior secured revolving credit facility with M&T Bank. The new facility provides for a 5-year term through 2027 and an interest rate calculated using SOFR plus 3.5%. There were no borrowings under this facility at quarter end.

And at June 30, 2022, using the borrowing-based formula, we had approximately \$21 million available under this credit facility. We did not repurchase any shares during the quarter, and we paid \$387,000 in dividends during the second quarter. The Board maintained the per share



dividend level for the third quarter of 2022 at \$0.15 per share, which will be paid in mid-September.

With that, I'll turn the discussion back to Dan.

Dan Penberthy: Thanks, Margaret. As we go forward, we'll continue to execute our strategy, which is to position our portfolio to grow investment income and distribute our earnings to shareholders.

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