



Craig Mychajluk: Thank you, and good afternoon, everyone. We appreciate your interest in Rand Capital and for joining us today for our Third 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 have delivered another strong quarter of total investment income growth of 54%, which reflects an expanded debt portfolio and higher portfolio dividends. While we have made great strides building out our portfolio that is delivering strong total investment growth, we are equally focused on prudent expense management, which was demonstrated in the measurable improvement of net investment income per share of \$0.39 for the quarter.

We paid a dividend of \$0.15 per share during the quarter, the third quarter that is, and so far, this year, we have paid to shareholders \$0.45 per share in dividends. During this quarter, we made one investment to fund a \$400,000 follow-on equity investment in an existing portfolio company.

With a flexible balance sheet that is supported by multiple sources of capital, we believe we can continue to evolve our portfolio company mix, scale our business to drive investment income and further grow our distributable dividends.

If you turn to **Slide 4**, there you can see our portfolio mix between debt and equity and the slight changes during the third quarter.

More than half of our portfolio is still comprised of fixed rate debt investments as we ended the period at 54%. We have made significant progress in shifting our investment portfolio composition towards more debt instruments, and we expect that trend to continue as we execute our strategy. The rest of the portfolio comprised of 36% in equity investments in private companies and 10% in dividend-paying publicly traded BDCs and our ACV Auctions securities.

The fair value of our investments totaled \$59.7 million, expanding 1%, primarily due to the changes in ACV Auctions' market value and the follow-on investment I noted.



As of September 30, 2022, our portfolio consisted of investments in 29 companies, on par with the sequential second quarter, as we did not exit any positions during the period and we only made the one follow-one investment, which was highlighted on **Slide 5**.

We utilized existing cash to fund our follow-on equity investment in ITA, raising the total equity fair value of our investment to \$749,000. We also have \$3.5 million of debt investments with ITA that does have a variable rate of interest, and currently accrues at 14%, which includes a 12% current pay and a 2% PIK accrual.

ITA manufactures a broad variety of window covering components and finished wood treatments, including wood, faux wood, and fabric shades, shutters and blinds for residential and commercial applications.

We did not sell any of our holdings in ACV during the quarter. As a reminder, any proceeds above our approximately \$87,000 remaining cost will be a capital gain and treated as such when 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, which 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 during the third quarter. With the impact of recent investment and fair value changes, the BDC contracted to 6% and Manufacturing increased to 19%. The percentage mix of the other industries did not change substantially. We continue to 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 the last quarter, the major change was ITA moving into the top five ranking at the number four spot, given our recent investment, shifting DSD down, and Caitec moving out of the top five. The other positions noted were consistent with last quarter.

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 third quarter of 2022.

Total investment income for the quarter was \$1.6 million, up 54% over last year, reflecting increased interest income from portfolio companies, given four new debt investments over the last year, and higher dividend income. The number of portfolio companies contributing to current investment income, during the third quarter, was 21.

Total expenses were \$499,000 during the third quarter compared with \$962,000 in the prior-year quarter. This decrease was largely due to lower accrued capital gain incentive fees that resulted from the decrease in unrealized appreciation on our publicly traded securities. As a reminder, a capital gains incentive fee accrual under GAAP is calculated using the cumulative aggregate realized gains and losses and the aggregate net change in unrealized appreciation and depreciation at the close of the period.

Excluding the capital gains incentive fees, adjusted expenses, a non-GAAP financial measure, were \$477,000, down 6% from the prior-year period. The decrease reflects lower interest expense given the Company's SBA indebtedness was paid off in full in December 2021,



partially offset by higher professional fees resulting from the new senior secured revolving credit facility completed in the second quarter of 2022.

Net investment income was \$1.0 million, or \$0.39 per share, for the third quarter compared with \$53,000, or \$0.02 per share, in the prior year quarter. On an adjusted basis, which is a non-GAAP financial measure, net investment income doubled to \$0.40 per share for the third quarter of 2022.

Slide 10 provides a waterfall graph for the change in net asset value for the quarter. At September 30, 2022, net assets were \$58.4 million, an increase since the second quarter. The change was primarily attributable to the net investment income growth and change in ACV Auctions' market value. We also declared and paid out approximately \$387,000 of cash dividends during the quarter. As a result, the net asset value per share was \$22.62 at September 30, 2022, compared with \$22.34 at June 30, 2022.

Slide 11 highlights our strong balance sheet. Cash at quarter-end were \$1.0 million, up 24% since 2021 year-end. We still hold approximately \$6.2 million of liquid BDC and ACV auction stock at quarter-end. These investments can provide near-term funding capital for investments, as we demonstrated in past quarters.

Also, as a reminder, during the second quarter we closed on a 5-year, \$25 million senior secured revolving credit facility. There were no borrowings under that facility at quarter-end; however, we did take an initial \$300,000 drawdown early in the fourth quarter of 2022 to fund a debt investment.

We did not repurchase any shares during the quarter. The Board maintained the per share dividend level at \$0.15 per share during the third quarter, which was paid in September of 2022.

Later this fourth quarter, we will again review all sources of GAAP and tax-based income, including those from short- and long-term capital gains, which may result in additional distributions over the previously distributed regularly quarterly cash dividends that were paid out. The final determination and calculation of our tax-based distributable income for each year is finalized in the September/October timeframe of the following year in conjunction with our tax return filings.

With that, I turn the discussion back to Dan.

Dan Penberthy: Thanks, Margaret. We are excited about our future. With the support of our strong liquidity position, we believe we can continue to execute our strategy to grow our portfolio, drive investment income and support a growing dividend.

Thank you for joining us today and for your continued interest in Rand Capital. We look forward to updating all of you on our fourth quarter 2022 results, which will be reported in March. 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.