Operator: Good morning, and welcome to Rand Capital Corporation fourth quarter 2022 financial result. At this time, all participants are in a listen-only mode. [Instructions] Please not this conference is being recorded. I will now turn this conference over to Craig Mychajluk, Investor Relations. Thank you, you may begin.

Craig Mychajluk: Thank you, and good morning, everyone. We appreciate your interest in Rand Capital and for joining us today for our fourth quarter and full year 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 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 morning, everyone.

The fourth quarter capped off a strong year for Rand as we continued to execute our strategy by focusing on current cash yields in order to achieve our income producing goals.

We advanced our investment portfolio composition towards more debt instruments with the addition of four interest-yielding investments over the past year. In total, our debt portfolio now makes up more than half of our total portfolio mix sitting at 56% compared with 46% at the end of 2021.

We delivered total investment growth of 40% for the quarter and over 41% for the full year period, which reflected increase in interest income from portfolio companies and higher portfolio dividends. While we have made great strides building out our portfolio that is delivering strong total investment income growth, we are equally focused on prudent expense management, which was demonstrated in the measurable improvement of net investment income per share of $0.48 for the quarter, up 4x from last year's fourth quarter. For the full year, net investment income per share was $1.72 compared with a loss of $1.01 per share in 2021.

These improved results enabled us to increase our return to shareholders. During 2022, we paid out total dividends of $0.83 per share, which represented an increase of nearly 90% over our 2021 distributions. This included raising our regular cash dividend by 33%, or $0.05 per share, bringing it to $0.20 per share in the fourth quarter of 2022, and at the same time paying a supplemental dividend of $0.18 per share.

During the year, we invested over $7.0 million across seven transactions, which largely consisted of interest yielding assets. I will highlight our fourth quarter investments in a moment.

If you turn to **Slide 4**, you can see our portfolio mix between debt and equity, and the changes during the past year.

Fixed rate debt investments made up 56% as we made progress in shifting our investment portfolio composition towards more debt instruments, and we do expect that trend to continue as we further execute our strategy.

The rest of the portfolio comprised of 34% in equity investments in private companies and 10% in dividend-paying publicly-traded BDCs and ACV Auctions securities.

The fair value of our investments totaled approximately $61.5 million, expanding 3% from the sequential 2022 third quarter. We saw some contraction of the fair value when compared with 2021 year-end, which was primarily due to the BDC stock sales made during the year and lower valuations for ACV Auctions and Open Exchange. Helping partially offset this decrease was our new and follow-on investments.

As of December 31, 2022, our portfolio consisted of investments in 29 companies, down five since 2021. We exited two BDC investments along with Social Flow, Empire, Microcision and New Monarch during the year. The one add was Food Service Supply during the recent fourth quarter, and is highlighted on **Slide 5.**

We utilized existing cash and our senior secured revolving credit facility to fund these investments. The $3.1 million investment in Food Service Supply consisted of $2.5 million of senior subordinated debt at 12% and $600,000 of preferred equity. FSS is out of Utah, and provides design, distribution and installation services for commercial kitchens, as well as renovations and new commercials builds.

We made a follow-on debt investment of $590,000 in SciAps, an instrumentation company specializing in portable analytical instruments to identify compounds, minerals and elements. We have been an investor in SciAps for nearly 10 years consisting of both debt and equity investments. Our total fair value of these investments were $5.2 million at year-end.

We also made a $194,000 follow-on equity investment into Seybert's Billiard's Corporation, raising the total fair value of our investments to $5.9 million, which was largely comprised of $5.6 in debt that does accrues at 14%. That 14% includes a 12% current pay and a 2% PIK accrual. Seybert's is a retail company that specializes in billiards equipment and accessories; and is fairly typical with the types of investments we are making these days.

We had one exit during the quarter, which was Empire Genomics repaid their $1.4 million loan.

The charts on **Slide 6** illustrate the diversity in our portfolio and the change in industry mix year over year. Given the impact of investments, sales and fair value changes, we saw the largest changes in Software sector, which decreased 10%, while Professional Services increased to 31%, and Manufacturing also increased to 23%. We continue to value this diversity of our portfolio as we do feel that this mitigates the ultimate market risk impact.

Slide 7 lists our top five portfolio companies at year-end, which represents almost half of our total portfolio. Since last quarter, SciAps moved into the top five ranking at the number three spot given our fourth quarter investment into the company. Tilson remains the largest fair value investment and both Open Exchange and ITA moved out of the top five given our valuation changes for the quarter, which shifted DSD to the fourth spot, also and moved Caitec into the top five. At year-end, we still held nearly 320,000 shares of ACV, and represents approximately 4% of our total portfolio's fair value.

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 9 and 10**, which provide an overview of our financial summary and operational highlights for the 2022 fourth quarter and full year period.

Total investment income for the quarter was over $1.7 million, up 40% over last year, driven by increased interest income given four new debt instruments over the last year, and higher dividend income. For the full year, total investment income grew over 41% to $5.8 million for similar reasons as the quarter. The number of portfolio companies contributing to investment income was 24 at year-end.

Total expenses were approximately $371,000 during the fourth quarter compared with $923,000 in the prior-year quarter. This decrease reflects lower interest expense and a credit of accrued capital gain incentive fees given the decrease in unrealized appreciation on our publicly traded securities and Open Exchange and ITA valuation changes. As a reminder, a capital gains incentive fee accrual under GAAP is calculated using the cumulative aggregate realized capital gains and losses and the aggregate net change in unrealized capital appreciation and depreciation at the close of the period.

Excluding the capital gains incentive fee, adjusted expenses, a non-GAAP financial measure, were approximately $539,000, down 36% from the prior-year period, due to continued expense management and the lower interest expense.

Full year 2022 total expenses decreased to $1.1 million from $6.7 million, largely due to an approximate $5.3 million swing within the capital gains incentive fee accrual. Specifically, 2021 included $4.2 million of capital gains incentive fees, whereas in 2022 included a reversal of $1.0 million of those fees. The total expense decrease also reflects the elimination of interest expense payments for the SBA obligations, which were paid in full in November 2021. When looking on an adjusted basis, which is a non-GAAP basis financial measure, 2022 expenses were down 12% year-over-year.

Fourth quarter net investment income was $1.2 million, or $0.48 per share, compared with approximately $320,000, or $0.12 per share, in the prior-year quarter. On an adjusted basis, which is a non-GAAP financial measure, net investment income more than doubled to $0.41 per share.

For the full-year period, net investment income per share was $1.72 compared with net investment loss of $1.01 per share in 2021. Excluding the capital gains incentive fee accrual, which is a non-GAAP financial measure, adjusted net investment income per share was $1.31 for 2022, again more than double the 2021 results.

Slide 11 provides a waterfall graph for the change in net asset value for the year. At December 31, 2022, net assets were $57.7 million, down 5% from year-end 2021. The change reflects the new and follow on investments, offset by fair market value changes across a number of portfolio companies and the over $2.1 million in dividend distributions to shareholders during the year. As a result, the net asset value per share was $22.36 compared with $23.54 per share at December 31, 2021.

Slide 12 highlights our strong balance sheet. Cash at year-end was approximately $1.4 million compared with $834,000 at the end of 2021. We still held approximately $6.4 million in liquid

BDC and ACV auction shares, which can provide near-term funding capital for investments, as we have demonstrated in past periods.

Also, as a reminder, during the second quarter of 2022 we closed on a 5-year, $25 million senior secured revolving credit facility. At year-end, we had outstanding borrowings of $2.6 million, which was used to fund the investments that Dan highlighted earlier.

During 2022, Rand paid a total of $2.1 million of cash dividends, which included the four regular quarterly dividends, and the year-end 2022 supplemental dividend.

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 fourth quarter of 2022 that we raised the regular quarterly cash dividend by 33% to $0.20 per share. On February 28, 2023, Rand declared its regular quarterly cash dividend distribution of $0.20 per share for the first quarter of 2023. The dividend will be distributed on or about March 27, 2023, to shareholders of record as of March 13, 2023.

In April, 2022, the Board of Directors approved a new share repurchase plan, which authorizes the company to repurchase shares of our outstanding common stock with an aggregate cost of up to $1.5 million. During the past year, we did not repurchase any shares.

With that, I turn the discussion back to Dan.

Dan Penberthy: Thanks, Margaret. We enter 2023 with momentum on our side. We believe we have a strong and flexible balance sheet that is supported by multiple sources of capital. Beyond our cash on hand, our line of credit availability, we still have highly liquid publicly traded ACV and BDC stocks, potential proceeds from portfolio exits, and prospective investment income.

We are actively building a pipeline of investment opportunities in order to put our capital to work. We are focused on investing in higher yielding debt instruments and related equity investments in these privately held, lower middle market companies with a committed and experienced management team in a broad variety of industries. This may include follow on investments in existing portfolio companies as well that continue to demonstrate and perform, and exhibit continued growth potential.

Overall, we are excited about our future, and believe we can continue to execute our strategy to drive investment income growth in order to enable us to further grow our distributable dividends over time.

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 2023 results, which will be reported in May. We hope you have a great day.

Operator: Thank you. This does conclude today's conference. You may disconnect your lines at this time. 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.