



Operator: Greetings, and welcome to the Rand Capital Corporation First Quarter 2023 Earnings Call. [Operator Instructions] As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, Craig Mychajluk, Investor Relations for Rand Capital Corporation. Thank you. You may begin.

Craig Mychajluk: Thank you. Good afternoon, everyone. We appreciate your interest in Rand Capital and for joining us today for our first quarter 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 day, everyone. We kicked off the year with a strong first quarter demonstrated by continued earnings momentum driven by the improvement of our portfolio composition as well as the overall favorable performance of portfolio companies, amidst a challenging economic business climate. We delivered total investment income growth of 65% for the quarter, which reflected strong growth in interest from portfolio companies, dividend income that more than doubled and higher fee income.

For the quarter, net investment income per share was \$0.28 compared with \$0.30 in the prior year period. The change was largely driven by the accrual of additional capital gains incentive fees, which Margaret will review in greater detail. We paid a regular quarterly cash dividend of \$0.20 per share during the first quarter. And just over a week ago, on April 26, Rand increased its regular quarterly cash dividend for the second quarter by \$0.05 per share or 25%, making a \$0.25 per share for the quarter. We have continued to execute our strategy by growing our income-producing portfolio, which has enabled us to increase the dividend. We believe that our deal flow and unique position in the market will help to continue to support future dividends.

Other notable highlights during the quarter included \$5.6 million in new and follow-on investments while receiving \$500,000 from portfolio investment sales and repayments. Rand's Board of Directors also renewed the share repurchase program authorizing the company to purchase up to \$1.5 million in additional Rand's common stock.

If you could please turn to **Slide 4**, you can see our portfolio mix between debt and equity and the changes during the past quarter. As of March 31, 2023, our portfolio consisted of investments in 30 companies, up 1 since year-end 2022. The portfolio comprised approximately



58% in fixed rate debt investments, 31% in equity investments in private companies and 11% in publicly traded equities consisting of other BDCs and our ACV stock holdings. The fair value of these investments totaled \$68.2 million. This expanded 11% or \$6.7 million from the sequential 2022 fourth quarter and reflected recent investments and a \$1.5 million valuation adjustment on ACV Auctions.

We made an investment in 1 new portfolio company and also 2 follow-on investments that totaled \$5.6 million. Those transactions are highlighted on **Slide 5**. The largest investment in the quarter was \$3 million to PressurePro, which consisted of subordinated debt at a 15% interest rate and included a 10% warrant. PressurePro is a family-owned and operated company that has established itself as a market leader for branded tire pressure monitoring systems, consisting of a suite of proprietary hardware and software. We made a follow-on debt investment of \$2.3 million in Food Service Supply in combination with an equity sale of \$210,000. Rand's total debt and equity investment in FSS had a fair value of \$5.2 million at quarter end.

We also funded an equity investment of \$250,000 in Tilson Technologies' asset ownership, which is an affiliate of our SQF, LLC holding. This investment supports Tilson's expansion by both driving the continued growth of its nationwide network infrastructure design build services and supporting SQF, which develops telecommunications assets in public right-of-ways throughout the U.S. and is a leading pole owner and solution provider for 5G wireless installations.

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 these investments, sales and fair value changes, we saw minimal changes in our industry mix for the quarter with a 1% increase in professional services, manufacturing, and software and a 1% decrease in consumer products and automotive. We continue to value this diversity in our portfolio. **Slide 7** lists our top 5 portfolio of companies at quarter end, representing almost half of our total portfolio. Since last quarter, FSS moved into the top 5 ranking at the #4 spot, given our first quarter investment, which shifted Caitec out of the top 5. Tilson continues to remain the largest fair value investment.

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 2023. Total investment income was \$1.8 million, and this is up 65% over last year, driven by a 42% increase in interest from portfolio companies and higher dividend and fee income. Of our 30 total portfolio company investments, 23 contributed to our total investment income during this first quarter. Total expenses were approximately \$1.5 million during the first quarter compared with \$345,000 in the prior year quarter.

This increase includes a \$531,000 increase in our capital gain incentive fee accrual payable to the company's external investment adviser, Rand Capital Management, LLC. It also reflects \$158,000 in interest expense from our senior revolving credit facility that we entered into last year. As a reminder, we are required to accrue capital gains incentive fees on the basis of net realized capital gains and losses and net unrealized gains and losses at the close of a period.

Excluding the capital gains incentive fees, adjusted expenses, which is a non-GAAP financial measure, were approximately \$757,000 compared with \$585,000 in the first quarter of 2022. First quarter net investment income was \$715,000 or \$0.28 per share compared with \$772,000 or \$0.30 per share in last year's period. On an adjusted basis, which is a non-GAAP financial



measure, net investment income was \$0.39 per share, and this is up 86% from \$0.21 per share in last year's period.

Slide 10 provides a waterfall graph change in our net asset value for the quarter. Net assets from March 31, 2023, were \$59.4 million, up from year-end 2022. This change reflects solid investment income and positive fair value changes across a number of portfolio companies, partially offset by \$516,000 in dividend distributions to shareholders during the quarter. As a result, the net asset value per share was \$23 compared with \$22.36 at December 31, 2022.

As highlighted on **Slide 11**, we have a strong balance sheet and significant liquidity that positions us well in a volatile market. Cash at quarter end was approximately \$1.8 million. We did not repurchase any shares in the quarter. Though as Dan mentioned, the Board of Directors renewed the share repurchase program, which now expires on April 19, 2024.

We held approximately \$7.8 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 has a \$17.1 million of availability under the senior secured revolving credit facility at March 31, 2023.

Our total outstanding borrowings of \$7.95 million carried an interest rate of 8.05% at quarter end. Subsequent to the quarter end, on April 26, 2023, Rand's Board of Directors declared a quarterly cash dividend of \$0.25 per share. The cash dividend will be paid on or about June 14, 2023, to shareholders of record as of May 31, 2023. With that, I will turn the discussion back to Dan.

Dan Penberthy: Thanks, Margaret. The first quarter did show continued growth as we scale the business by focusing on debt and related equity investments in privately held lower middle market companies. Looking ahead, we believe we can continue to replicate our success by leveraging our multiple sources of capital to grow our portfolio and drive investment income growth well into the future.

Thank you for joining us today and for your continued interest and support of Rand Capital. We look forward to updating all of you on our second quarter 2023 results, which will be reported in August.

We hope you have a pleasant 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.