



Operator: Greetings, and welcome to the Rand Capital Corporation Second Quarter 2023 financial results. [Instructions] Please note, this conference is being recorded. I would now like to turn the conference over to your, Craig Mychajluk. Craig, you may now begin.

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

Our second quarter results reflected the strength and execution of our strategy with continued earnings momentum driven by the addition of debt investments originated during the quarter and a recognized sizable gain from the exit of our debt and equity investment in Dealer Solutions and Designs.

We delivered total investment income growth of 34% for the quarter, which reflects increased interest from portfolio companies and higher fee income. For the quarter, net investment income per share was \$0.19, and on an adjusted basis, a non-GAAP financial measure which excludes the capital gains incentive fee accrual expense, was \$0.38 per share. Margaret will review the changes in more detail.

We paid a regular quarterly cash dividend of \$0.25 per share during the second quarter, and just over a week ago, announced our regular quarterly cash dividend for the third quarter of \$0.25 per share. 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 nearly \$4.7 million in new and follow on investments, while receiving \$8.8 million from portfolio investment sales and debt repayments.

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

At quarter-end, our portfolio consisted of investments in 29 companies, down one which reflects the sale of DSD and Somerset Gas, offset by one new investment which I'll talk to on the next slide. The portfolio comprised approximately 60% in fixed-rate debt investments, reflecting an improvement over the past quarter and since year ended 2022. The remaining mix at the end of



the quarter comprised 29% in equity investments in private companies, and 11% in publicly traded equities consisting of other BDCs and ACV Auctions stock.

The fair value of our investments totaled \$66.8 million. This was down sequentially largely due to the partial sale of our ACV shares and the valuation adjustment on Open Exchange, as well as the DSD sale. Helping to offset was our new investments. On a year-to-date basis, however, our portfolio fair value expanded 9%, or \$5.3 million, from December 31, 2022.

We made an investment in one new portfolio company and one follow-on investment that totaled \$4.7 million during the quarter. Those transactions are highlighted on **Slide 5**.

The largest investment was \$4.3 million to INEA, which consisted of \$3.3 million of subordinated debt at a 12% interest rate with an additional 2% payment in kind, alongside \$1.0 million of preferred equity. INEA is a stocking distributor of controlled expansion alloys, electronic grade nickels, refractory grade metals and alloys, and soft magnetic alloys.

We made a follow-on debt investment of \$390,000 in portfolio company, ITA. This is to support their working capital needs and new manufacturing equipment for the company. Rand's total debt and equity investment in ITA had a fair value of \$4.0 million at quarter-end.

We had two exits during the quarter. DSD was sold during June 2023, which resulted in full repayment of our subordinated debt and sale of our preferred equity investments. In total, RAND received \$6.8 million in proceeds which included a net gain of \$2.5 million. The other exit was a small one as we sold Rand's legacy equity position in Somerset Gas.

Lastly, we also added to our liquidity position by trimming some of our holdings in ACV Auctions as we sold 125,000 shares during the quarter at an average price of \$14.03. This has netted us a realized gain of \$1.7 million. At quarter end, we still held 194,934 shares of ACV, which represented approximately 5% of our portfolio's fair value. Recently, ACV has been trading around the \$16 to \$18 share range and we had our ACV shares valued at \$17.32 at quarter end. We will continue to evaluate our holdings in ACV as we consider our future liquidity needs.

The charts on **Slide 6** illustrate the diversity in our portfolio and the change in industry mix during the second quarter. Given the impact of the new investment in INEA, the sale of DSD, along with fair value changes, we saw notable changes in our industry mix. Distribution, a rather new industry within our mix, was due to the investment in INEA which now makes up 7% of our total. Additionally, our Automotive mix decreased 7 percentage points, also due to the sale of DSD. There were some smaller adjustments as Manufacturing went up 2 percentage points, while Software went down 2 percentage points and, overall, we continue to value the diversity of our portfolio.

Slide 7 lists our top five portfolio companies at quarter-end, representing almost half of our total portfolio. There was one change in the ranking since the last quarter with INEA moving into the top five ranking at the number five spot, while DSD dropped out given the sale. Tilson continues to remain the largest fair value investment at \$10.6 million or 16% of our total portfolio.

With that, I'll turn it over to Margaret to review our financials in greater depth.

Margaret Brechtel: Thank you, 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.



Total investment income was \$1.8 million, up 34% over last year, driven by a 47% increase in interest income from portfolio companies and higher fee income. The higher interest from portfolio companies reflects 6 new debt instruments that originated over the past year. Of our 29 total portfolio company investments, 22 contributed to our total investment income during the second quarter of 2023.

Total expenses were approximately \$1.3 million during the second quarter compared with a credit of \$96,000 in the prior-year second quarter. This increase largely reflects a change in accrued capital gains incentive fees to the Company's external investment adviser, Rand Capital Management, LLC. The current period included \$491,000 of capital gains incentive fees expense compared with a credit of \$663,000 for the second quarter of 2022.

Our current total expenses also reflects \$259,000 in interest expense, given use of the senior revolving credit facility that we entered into last year. There was no corresponding expense during the prior-year second quarter.

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 capital gains and losses at the close of the period. Excluding the capital gains incentive fee, adjusted expenses, a non-GAAP financial measure, were \$816,000 compared with \$567,000 in the second quarter of 2022.

Second quarter net investment income was \$493,000, or \$0.19 per share, compared with \$1.4 million, or \$0.55 per share, in last year's period. On an adjusted basis, which is a non-GAAP financial measure and excludes the capital gain incentive fee accrual expense, net investment income was \$0.38 per share, up 31% from \$0.29 per share in last year's period.

Slide 10 provides a waterfall graph for the change in net asset value for the quarter. Net assets at June 30, 2023, were \$61.4 million, up more than 3% from the end of the first quarter of 2023. The increase reflects solid net investment income and the net realized gains, partially offset by a decrease in unrealized appreciation on investments and \$645,000 in dividend distributions to shareholders during the quarter. As a result, the net asset value per share at June 30, 2023 was \$23.79, compared with \$23.00 at March 31, 2023.

As highlighted on **slide 11**, we have a strong balance sheet and significant liquidity that positions us well for future investments. Cash at quarter-end was approximately \$8.4 million. We did not repurchase any shares in the quarter.

We held approximately \$7.4 million of liquid BDC and ACV Auction 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 \$14.3 million of availability under our senior secured revolving credit facility at June 30, 2023. Our total outstanding borrowings of \$10.7 million carried an interest rate of 8.59% at quarter-end. With our strong cash position, after quarter-end in July, we paid down \$3 million of our outstanding borrowings.

On July 25, 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 September 14, 2023 to shareholders of record as of August 31, 2023.

With that, I turn the discussion back to Dan.

Dan Penberthy: Thanks, Margaret. The second quarter showed continued investment income growth as we scaled the business by investing nearly \$4 million in subordinated debt



instruments along with related equity investments in the privately held, lower middle market companies.

We believe we can continue to execute our strategy as we look to the second half of the year and beyond. With our strengthened balance sheet and liquidity position, we expect to leverage our cash on hand and credit facility to invest in opportunities that will provide higher yields in order to drive our earnings potential and support a growing dividend well into the future.

Thank you for joining us today and for your continued interest in Rand Capital. We look forward to updating all of you on our third quarter 2023 results, which will be reported in November. We hope you have a great day.

Operator: This will 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.