



Operator: Greetings, and welcome to Rand Capital Corporation Third Quarter Fiscal Year 2023 Financial Results. [Operator Instructions] As a reminder, this conference is being recorded. It is now my pleasure to introduce Craig Mychajluk, Investor Relations. Thank you. You may begin.

Craig Mychajluk: Thank you, and good afternoon, everyone. We appreciate your interest in Rand Capital and for joining us today for our third 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 afternoon, everyone. There is a recurring theme as our results once again reflected the strength and execution of our strategy as we continue to deploy capital largely centered on high-quality debt investments.

Total investment income grew 12% for the quarter and was driven by the sustained growth in interest income from our portfolio companies. For the quarter, net investment income per share was \$0.31, which was down year-over-year, the contributing factor of which affecting this decline was higher expenses tied to our debt financing, which has been put to work to fund future growth.

Our net asset value per share of \$23.77 was relatively flat for the quarter, but up 6% since year-end 2022. We've completed 2 new investments during the quarter that totaled \$7.8 million, which I will highlight in a few slides. And even after those investments, we continued to end the quarter with significant liquidity to put to work for future investments.

The company paid a quarterly cash dividend of \$0.25 per share during the third quarter. We believe that our deal flow and unique position in the market will continue to support future dividends, and following past practice, we expect to announce our fourth quarter dividend in early December.

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 with a fair value of nearly \$75 million across 30 portfolio businesses. This is up 1 given the 2 new investments and was offset by 1 exit of a former equity investment that was previously listed at no fair value and which provided a tax loss.



The portfolio comprised approximately 63% in fixed rate debt investments, which has continued to increase since the past quarter and the year ended 2022. The annualized weighted average yield of those debt investments was 13.45%. The remaining mix at the end of the quarter comprised 27% in equity investments in private companies and 10% held in publicly traded equities, primarily consisting of our other BDC investments and our ACV Auctions stock.

At quarter end, we still held almost 195,000 shares of ACV, which does represent approximately 4% of our portfolio's total fair value. We had our ACV shares valued at \$15.18 at quarter end, and we will continue to evaluate these holdings as we consider our future liquidity needs.

As I mentioned, during the quarter, we completed 2 new investments that fit well within our investment objectives and demonstrate our ability to attract opportunities in the current market environment. These transactions are highlighted on **Slide 5**.

The largest investment totaled \$4.0 million to All About People. This included \$3 million of senior debt at a 16% interest rate, which also includes a PIK, or payment in kind interest, and a \$1 million preferred equity investment that also carries a 12% dividend. All About People is a full-service staffing and executive search firm, with a growing focus on the health care industry. The other investment was \$3.8 million in First Coast Mulch. This consists of a \$3.4 million subordinated note at 13% and also an interest-earning convertible note of \$420,000 convertible to future equity.

First Coast Mulch is a commercial mulch installation company that covers Northern and Central Florida markets.

The charts on **Slide 6** illustrate the diversity in our portfolio and the change in industry mix during the third quarter. Given the impact of the new investments in All About People and First Coast Mulch, along with other fair value changes, we saw notable changes in this industry mix.

Professional services, which has been our largest industry mix, increased 8 percentage points to now 40% of the total. Manufacturing went down 3 points, consumer products down 2 points, and there were a few other smaller industries that were adjusted by a percentage point.

Overall, we continue to value the diversity of our industry represented across this total portfolio.

Slide 7 lists our top 5 portfolio companies at quarter end. There was no change in the ranking since last quarter. Tilson continues to remain the largest fair value investment at \$10.6 million, or 14% of our total portfolio. The one change you may notice is that our top 5 now represents 42% of our total portfolio versus 47% last quarter. This reflects the overall fair value growth of the total portfolio.

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 2023.

Total investment income was \$1.7 million, which is up 12% over last year, driven by a 40% increase in interest income from portfolio companies. The higher interest from portfolio company reflects 7 new debt investments that we originated over the last year. Of our 30 total portfolio investments, 23 contributed to our total investment income during the third quarter.

We did see lower dividend income during the quarter, which was largely due to a large prior year dividend from Carolina Skiff, which did not repeat in the third quarter of 2023. Also



contributing to the decline was the sale of the company's investment in Dealer Solutions and Design during the second quarter of 2023.

Total expenses were approximately \$810,000 during the third quarter compared with \$499,000 in the prior year third quarter. This increase largely reflects a \$264,000 increase in interest expense and borrowings under the senior revolving credit facility entered into in June of 2022 to fund growth. Also contributing to the total expense increase was a \$43,000 increase in base management fees, which is calculated on our total assets, less cash. So, as we deploy more capital into investments, that fee increases accordingly.

Partially offsetting was the change in accrued capital gains incentive fees to the company's external investment adviser. The current period did include a credit of \$41,000 of capital gains incentive fees compared with an expense of \$22,000 for the third quarter of 2022. As a reminder, we are required to accrue capital gain 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 fees, adjusted expenses, a non-GAAP financial measure, were \$851,000 compared with \$477,000 in the third quarter of 2022.

Third quarter net investment income was \$799,000 or \$0.31 per share compared with \$1 million or \$0.39 per share in last year's period. On an adjusted basis, which is a non-GAAP financial measure, and excludes the capital gains incentive fee accrual expense, net investment income was \$0.29 per share compared with \$0.40 per share in last year's period. Again, this change reflects the expense changes I highlighted largely due to the use of the senior revolving credit facility.

I'm going to move on to **Slide 10** and Slide 10 provides a waterfall graph for the change in net asset value for the quarter. Net assets at September 30, 2023, were \$61.4 million, comparable with the end of the second quarter. Net investment income and the net change in unrealized depreciation offset the net realized loss on sales along with the \$645,000 in dividend distributions to shareholders during the quarter. As a result, the net asset value per share at September 30, 2023, was \$23.77 compared with \$23.79 at June 30, 2023.

As highlighted on **Slide 11**, we continue to have a strong balance sheet and significant liquidity that positions us well for future investments. Cash at quarter end was approximately \$3.5 million. We held approximately \$7.2 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 had \$11.3 million in availability under the senior secured revolving credit facility at September 30, 2023. So in total, our liquidity, counting these 3 sources, is approximately \$22 million.

Our outstanding borrowings of \$13.8 million at quarter end carry an interest rate of 8.8%.

With that, I will turn the discussion back to Dan.

Dan Penberthy: Thanks, Margaret. We have delivered another quarter of strong performance. Looking forward, we believe we can continue to execute on the strategy and do remain focused on generating strong and consistent returns for our shareholders. The expansion of the portion of our portfolio investments into these debt instruments has proven to be a cornerstone of our success, and we do expect to continue this trajectory of this growth 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 fourth quarter 2023 results, which will be reported in March. We hope you have a great day.

Operator: Ladies and gentlemen, this does conclude today's teleconference. Thank you for your participation. You may disconnect your lines at this time and have a wonderful 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.