



**Operator:** Greetings, and welcome to Rand Capital Corporation Second Quarter Fiscal Year 2024 financial results. [Operator Instructions] As a reminder, this conference is being recorded. I would now like to turn the conference over to your host, Mr. 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 second quarter 2024 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](http://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](http://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.

We continue to execute our strategy, achieving significant growth in total investment income as a result of our growing portfolio and our capital deployment into debt instruments. This past quarter, our portfolio optimization efforts did include selective asset sales, which generated capital we used to enhance our balance sheet, which will position us rather favorably for future growth opportunities.

I'm very excited to highlight and remind you all that last month, we announced the acquisition of one of our portfolio investments, SciAps, which is one of our larger legacy equity and debt holdings by U.K.-based Spectris plc. The transaction, which is expected to be completed later this year is valued at up to \$260 million. This does include a deferred component of \$60 million earnout. Rand holds approximately 6% of SciAps' equity with our total investment costing \$5.2 million and does include a secured note from 2021. As of June 30, we have valued this total investment into SciAps at \$10.8 million.



We are carefully evaluating the best options for the anticipated capital infusion from this acquisition. We recognize that we need to strategically redeploy these funds to the extent possible through new investments as well as reinvesting in existing portfolio companies, which show high potential. This approach aims to drive further value for our shareholders and may also include additional returns in the form of dividends down the road.

The achievement of our strategic objectives over the last few years has translated into tangible benefits for our shareholders. This is highlighted on **Slide 4**. Year-to-date, we have declared total dividends of \$0.83 per share. This includes a cash dividend of \$0.29 per share rather for the second quarter.

More recently, on July 31, we announced that our third quarter 2024 dividend will continue to be held at \$0.29 per share. At quarter end, after deploying capital and distributing \$748,000 in cash dividends to shareholders, we maintained total available liquidity of over \$11 million.

This liquidity includes our line of credit availability, cash on hand and our remaining highly liquid publicly traded BDC securities.

If you turn to **Slide 5**, you will see our portfolio mix between debt and equity and the changes during the recent quarter. Our portfolio had a fair value of \$87.1 million across 26 businesses. This is up 13% from year-end 2023 and 5% sequentially.

The increases reflect investments in valuation adjustments in multiple companies, including SciAps, partially offset by stock sales and portfolio loan repayments. Our portfolio is comprised of approximately 66% debt investments with an annualized weighted average yield of 13.8%, including PIK interest. The remaining mix includes 32% equity investments in private companies and thus primarily consist of SciAps and Tilson as well as 2% in publicly traded BDC investments.

During the quarter, we completed a follow-on equity investment, which is highlighted on **Slide 6**. We invested \$108,000 in food service supply or FSS, who is a commercial kitchen supply and services company based in Utah. Following this investment, our total debt and equity holdings in FSS reflect a fair value of \$7.5 million at quarter end. The bottom half of the slide highlights notable exits and repayments for the quarter. We received \$3.3 million in total proceeds from liquidating our shareholdings in 3 BDC investments. This resulted in realized gains of \$598,000 from Carlyle, \$485,000 from PennantPark and \$177,000 from Ares.

Additionally, we recognized a realized gain of \$397,000 from a partial asset sale of a Tilson affiliated entity called SQF. We also received \$740,000 principal loan repayments from our PressurePro debt investments.

Lastly, we exited our equity investment in KNOA, which had been previously valued at 0.

**Slide 7**, if you kindly turn to that, visually illustrates the diversity within our portfolio and the changes in our industry allocation over the second quarter. Recent investments and adjustments in fair value led to changes in our industry composition. Manufacturing increased from 20% to 25% of our portfolio, while the BDC stocks following their sales decreased from 5% to 2%. We place a high value on the diversity of our industry mix. The broad spectrum of sectors across the portfolio reflects our strategic approach, ensuring resilience in a difficult economy and mitigating risk in our investment efforts.



**Slide 8** lists our top 5 portfolio companies at quarter end. And consistent with my prior comments regarding our larger legacy equity holdings, Tilson remains our largest fair value investment at \$12.3 million, marking a 17% increase from the prior quarter and representing 14% of our total portfolio. SciAps' moved up to the second position with its value more than doubling to \$10.8 million following the announced definitive purchase agreement. Overall, the top 5 companies represent 50% of our total portfolio at quarter end.

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 10**, which provides an overview of our financial summary for the 2024 second quarter. Total investment income for the quarter was \$2.1 million, and that represents an 18% increase over last year's second quarter. This growth was driven by a 35% increase in interest income reflecting 7 new interest-yielding investments made over the past year.

Overall, 22 portfolio companies contributed to our investment income. Total expenses for the second quarter were approximately \$2.7 million compared with \$1.3 million in the same quarter last year. This increase included a \$1.2 million rise in capital gain incentive fee to our external investment adviser. In accordance with GAAP, we must accrue a capital gains incentive fee on all our realized and unrealized gains and losses. Due to recent portfolio performance and realized gains, we recognized a higher accrual this quarter.

Adjusted expenses, which exclude accrued capital gains incentive fees and is a non-GAAP financial measure, were \$1 million compared with \$816,000 in the second quarter of 2023. The increase largely was due to interest expense, given usage of the senior revolving credit facility. Second quarter net investment loss was \$517,000 or \$0.20 per share. That was compared with a net investment income of \$493,000 or \$0.19 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 \$0.44 per share, up 16% from \$0.38 per share in last year's period.

On **Slide 11**, you'll see a waterfall graph for the change in net asset value for the quarter. Net assets at June 30, 2024, were \$68.6 million, up 11%. The change largely reflects the unrealized appreciation on investments of \$7.8 million. As a result, the net asset value per share at June 30, 2024, increased to \$26.56 compared with \$23.85 at March 31, 2024.

As highlighted on **Slide 12**, we continue to have a strong and flexible balance sheet that positions us well for future investments. Total assets grew 8% to \$90.8 million, which included cash at quarter end of approximately \$2.3 million. We also held approximately \$1.3 million in liquid BDC shares which are available for future liquidity needs. Based on our borrowing base formula, Rand had \$7.8 million of availability in its existing \$25 million senior secured revolving credit facility at June 30, 2024, and our outstanding borrowings of \$17.2 million carrying an interest rate of 8.8% at quarter end.

We expect that our strategy of transforming the portfolio to include more income-generating investments will enable us to sustain higher dividend levels over time. Recently, Rand announced its regular quarterly cash dividend of \$0.29 per share. This dividend will be paid on or around September 13, 2024, to shareholders of record as of August 30, 2024.

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



**Dan Penberthy:** Thanks, Margaret.

Moving forward, our strategy is to expand our business by pursuing new investments and we will continue to reinvest in existing portfolio companies with high potential. Our objective is to participate in new smaller M&A transactions with other co-investors which will help to support robust steady income stream through these new debt instruments, while also sharing in the EBITDA growth of these new opportunities through our equity holdings.

We expect that this will lead to future monetization for our shareholders. We also believe that this approach will enhance our capacity to increase dividends over the long term. While Rand is currently more focused on debt financing for lower to middle market businesses, the expected successful exit of SciAps underscores our commitment to maintaining minority equity investments within our portfolio and how they accompany all of our new investments.

These future investments, however, will now be part of a larger initial debt investment, as I noted. We believe these equity stakes can contribute to strong returns upon future exits.

Thank you for joining us today and for your continued interest in Rand Capital. We look forward to updating you on our third quarter 2024 results, which will be reported in November. Have a great day.

**Operator:** This concludes today's conference. You may disconnect your lines at this time, and we 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](http://randcapital.com)), as well as to information available on the SEC's website ([www.sec.gov](http://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.*