



Operator: Greetings, and welcome to Rand Capital Corporation's First Quarter 2019 Financial Results Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions].

As a reminder, this conference is being recorded. I would now like to turn the conference over to Deborah Pawlowski, Investor Relations for Rand. Thank you. Please begin.

Deborah K. Pawlowski: Thank you, Roya, and good afternoon, everyone. We appreciate your time today for Rand's First Quarter Financial Results Conference Call.

On the line with me are Pete Grum, our Chief Executive Officer; and Dan Penberthy, our Executive Vice President Chief Financial Officer. You should have a copy of the release that crossed the wires this morning as well as the slides that will accompany our conversation today. If not, they are available on our website at www.randcapital.com.

If you look at the slide deck and turn to **Slide 2**, let me point out some important information. As you are likely aware, we may make some forward-looking statements during this presentation and also during the question-and-answer session. These statements apply to future events that are subject to risks and uncertainties as well as other factors that apply to future events that could cause actual results to differ from where we are today. These risks and uncertainties and other factors are provided in the earnings release as well as in other documents filed by the company with Securities and Exchange Commission.

In addition, there is additional information related to the solicitation of proxies from shareholders in respect to the proposed transactions. We urge you to read the proxy statement and other materials filed with the Securities and Exchange Commission, and you can find that information on our website or at www.sec.gov.

With that, let me now turn it over to Pete, who is going to summarize the highlights for the quarter and discuss the transformation of Rand, then Dan will follow with more details regarding the financials. Pete?

Pete Grum: Good afternoon, everyone. Thank you for your time today as we discuss the proposed transaction and update you on our first quarter results.

I'm going to start with **Slide 3** to touch on some of the key developments thus far this year. The most significant event is the filing of our definitive proxy statement and the scheduling of the special meeting of shareholders, requesting approval of the proposed \$25 million investment by East Asset Management. I'll cover the proposed transaction more in the next few slides. I also want to point out that Rand management, East and the Rand Board of Directors have elected to receive all stock in the proposed special dividend as a testament to our belief and the potential for the future of Rand following the transaction.

During the quarter, we received \$3.5 million from eHealth Global Technologies for the repayment of their loan. As Dan noted in the press release, this is a rather short-term investment for us at less than 3 years and provided a nice yield.

We also had 2 follow-on investments totaling \$650,012 in the quarter. We invested \$500,012 in Tilson Technology Management as part of a larger investment by other parties to support their growth. We have also invested \$150,000 in KnowledgeVision Systems as they expand their product portfolio.

At the end of the quarter, our net asset value, or NAV, increased to \$5.06 per share, up from \$4.99 at the end of December. The increase was driven by the net appreciation of our portfolio investments. Dan will provide further details on those.



Investment income almost doubled to \$719,000, mostly from the eHealth loan repayment. Excluding the loan repayment, investment income was up 36%. This quarter, we also drew down \$2.25 million of our SBA leverage for our investment plans, including those made in this last quarter.

I'll give you a minute to turn to **Slide 4**. I want to take this opportunity to provide a review of the potential for creating value for our shareholders through the transformation of Rand. The proposed \$25 million strategic investment by East Asset Management can make this possible. They are purchasing 8.3 million shares at a price of \$3 per share. Those of you who followed our stock know that this represents a \$0.30 premium to our closing price the day prior to the announcement.

As part of this transaction, we plan to externalize management and elect to be treated as a regulated investment company, or RIC, for tax purposes. These actions align us better with the majority of other BDC's. There are 50 publicly traded BDCs, and we are the smallest in market cap and NAV. Of those 50, the number of non-dividend-paying BDCs has declined to just 5 including us. There is a reason there are only 5 remaining and that is because it's not a preferred business model.

Slide 5, I'd like to go through why we believe shareholders should support our proposal. There are several reasons that we believe this transformation creates the opportunity for greater future total return for our shareholders. As I previously mentioned, we believe the change in our business model and tax status could improve our market valuation. Through my conversations, I realized many shareholders do not understand the value of externalized management. By adopting the more standard business model of BDCs, we create a fixed percentage fee for our operating expenses related to the management of our portfolio. Even as the portfolio expands, which is our plan, the fixed fee percentage does not change. For us to make step changes in growth, we believe we need to invest in staffing ahead of this expansion in our portfolio.

To grow, we also need additional capital which has not been easy to come by. As a very small BDC, the opportunities to increase our SBA leverage have been limited. The investment by East provides additional capital to grow our portfolio and increase our returns. The assets being contributed by East are immediately accretive to investment income. We expect that the greater scale with the infusion of capital better positions us in the capital market with an increase in shareholder equity and total assets.

To elect RIC status, we are required to distribute our accumulated earnings and profit since inception, which we estimate to be approximately \$22 million. We plan to make this distribution, enabled in part by the East investment, as a special dividend of approximately \$1.50 per share. To maintain this advantageous tax status, we will be required to distribute greater than 90% of our net investment income in regular dividends to shareholders. This is all subject to Board approval.

Importantly, this transformation enables us to be well positioned to derive greater potential returns for our shareholders by building a larger portfolio of income-producing assets, growing our capital base, increasing our bottom line and providing ongoing dividends to our shareholders.

Slide 6, if you turn to that, summarizes the benefits we believe shareholders will derive from the transaction. We believe that the Board and management went through a process that resulted in a thorough review of strategic alternatives over the last 4 years, and we have evaluated a number of alternatives. We have consulted with experts in this industry and are resolute in our conviction that this transaction is in our shareholders' best interest.

If you turn to **Slide 7** I can delve further into the externalization process. There seems to be an impression that Dan and I somehow benefit from this change. I suggest to you that we see it differently. We are significant shareholders and a large portion of our net worth is tied up in the company. We believe that our interest is directly aligned with the shareholders.



The externalization, as noted in the proxy statement, is expected to reduce annual expenses as a percentage of portfolio assets. We also see the potential for a broader pipeline of investment opportunities through the Adviser's expected access to a network of family offices. The investment committee will have the benefit of added talent from East affiliates.

Another benefit from this strategic investment is that we will receive new portfolio investment having a fair value of \$11.6 million. Rand management and the Board evaluated the assets using the process we use for our own portfolio to come up with an agreed fair value. These assets are income producing with a current interest rate of 12%. This is consistent with our current portfolio. As an example, eHealth, which we talked about previously, had an interest rate of 13%. The idea that we were forced to accept whatever loans were offered by East without our approval is incorrect. I should note that when we close the deal, the fair value of the assets is agreed upon and any variation to the value from our current assessment is an adjustment to the cash, positive or negative.

It is important we evaluate the alternatives as shown on **Slide 8**. We have a large investor that is adamantly opposed to this transaction, but after many conversations and their early knowledge of the plan, they failed to provide an alternative. Most recently, they suggested liquidating the portfolio, suggesting somehow shareholders could get a better return on their investment. They failed to provide a plan to execute a liquidation or to substantiate how they derived that value. We would suggest their alternative demonstrates a lack of understanding of our current portfolio and the challenge of liquidation, whether quick or over a long period. In fact, our Board considered this alternative and many others, and we deemed this would destroy both current and future value. More importantly, this option destroys the future potential total return for our shareholders as a transformed organization.

There were factual inaccuracies and unsupported statements in their SEC filings, which we have brought to the SEC's attention. The most significant of which is the User-Friendly Phone Book, is a wholly owned subsidiary of User-Friendly Holding, LLC, whose Board of Managers is controlled by Jeff Stevenson.

To date, User-Friendly has failed to disclose in its SEC filings that Mr. Stevenson was ordered by the SEC to cease and desist from making fraudulent or misleading disclosures and ordered to pay a civil money penalty to the SEC in the amount of \$200,000 in 2018.

If you turn to **Slide 9**, we are proposing what we believe can be a long and fruitful future for Rand and its shareholders. We want to create value, not destroy it. And we firmly believe that the route we are proposing will offer that opportunity.

If you turn to **Slide 10**, in the interest of time, I'm going to briefly touch on our portfolio company Tilson. As a result of an investment by us and others, the fair value of our investment nearly doubled from year-end to \$5 million from \$2.6 million. Based in Portland, Maine, Tilson is expanding its nationwide network infrastructure design-build services, enabling the spinout and capitalization of its asset ownership affiliate, SQF, which will maintain authority to own and develop telecommunication assets in public right-of-ways throughout the U.S.

SQF is a leading pole owner and solutions provider for 5G. Supported by Tilson's real estate entitlement, engineering construction and operational capabilities, SQF provides customers with a range of infrastructure options, from single-site design-build services to fully outsourced deployment and management nationwide.

Slide 11 provides the industry mix of our diverse portfolio. Year-over-year comparisons as of March 31 show an increase in software, which was driven by the addition of Tech 2000 to our portfolio.

Turning to **Slide 12**, this depicts our mix of investments in equity and debt investments. The debt investments provide the needed cash flow to fund operations, while equity provides future upside potential. Looking



forward, in anticipation of the proposed East investment in Rand, we anticipate a heavier focus on debt-related investments to support an ongoing dividend.

Turn to **Slide 13**, please. This is a snapshot of the top 5 investments in our portfolio based on the values at the end of March. Our portfolio is valued at nearly \$32.5 million and includes 29 active companies. Since we last reported, eHealth is no longer part of the portfolio with the repayment of their loan. Tilson has been elevated to the top 5 with our recent investment and Rheonix moves back into the top 5.

Now I'd like to turn it over to Dan Penberthy, our Executive Vice President and Chief Financial Officer, who's going to cover the financial results.

Daniel P. Penberthy: Thanks, Pete, and good afternoon, everyone. If you could please turn to **Slide 15**, I'll start with the net asset value per share, or NAV. As Pete mentioned, we finished the quarter with net asset value at \$5.06 per share. As you can see on the chart, NAV did increase \$0.07 per share over the trailing quarter. This increase is primarily attributable to a net increase in the valuation of certain of our portfolio investments, primarily driven by the appreciation of Tilson.

On **Slide 16**, there is a summary of our operating performance for the first quarters of 2019 and 2018. Investment income increased significantly to \$719,000 in the first quarter. This is a 98% increase over the prior year's quarter. The \$356,000 increase was primarily related to \$225,000 nonrecurring fee income from the eHealth loan repayment.

Our first quarter expenses of \$690,000 were up approximately \$100,000, mostly from professional fees related to the proposed strategic investment by East. Net investment gains before income taxes refers to the difference between our investment income and our expenses. This is prior to changes in valuations of our investments. Our goal is to reach a breakeven level at that line, and we're happy to say we achieved that during the quarter. Below that line, the net realized and unrealized gains or losses on investments contributed to the \$0.07 increase in the NAV in the first quarter.

Now please turn to **Slide 17**, where you can see we have a solid balance sheet. It's important to note that out of our total cash balance, only \$1.9 million is available for corporate use, while \$6.8 million is in our SBIC subsidiary restricted for investments. That also includes the \$2.25 million draw we made during the quarter. Our portfolio investments are valued at \$5.14 per share at the end of the first quarter. Our portfolio growth has benefited from our past SBA loans. As of the quarter end, we have \$1.74 per share that we owe to the SBA. We also have \$0.28 per share of other assets net of liabilities. This comprises our NAV per share of \$5.06.

So with that shall we open up the lines for questions?

Operator: Thank you. We'll now be conducting a question-and-answer session. [Operator Instructions] There are no questions in the queue so I would now like to turn the call back over to our management team for closing remarks.

Pete Grum: Thank you very much for your time and attention this afternoon. We're very excited about the proposed investment by East which we believe will transform our organization for the benefit of all shareholders. We ask that you vote for the proposals being presented at our special meeting. And again, thank you for your time.

Operator: Thank you. This concludes today's conference. You may disconnect your lines at this time, and thank you for your participation.