



Operator: Greetings, and welcome to the Rand Capital Corporation Third Quarter 2017 Financial Results Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. If anyone should require Operator assistance during the conference, please press star, zero on your telephone keypad. As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Deborah Pawlowski, Investor Relations for Rand Capital. Thank you. Please begin.

Deborah K. Pawlowski: Thank you, Operator, and good afternoon, everyone. We certainly appreciate your time today for Rand's third quarter 2017 financial results conference call. On the line with me today are Pete Grum, our Chief Executive Officer and Dan Penberthy our Executive Vice President and Chief Financial Officer. Pete and Dan will be reviewing the results that were published in the press release distributed this morning. If you don't have that release, it is available on our website at www.randcapital.com.

The slides that will accompany our discussions today are also posted on the website. If you would look at the slide deck and turn to Slide 2 we will discuss our Safe Harbor Statement. 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 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 the Securities and Exchange Commission. These documents can be found on our website, or at www.sec.gov.

With that, let me first turn it over to Pete who is going to summarize the quarter's highlights and then Dan will go on to comment in detail regarding the financials.

Allen F. (Pete) Grum: Good afternoon, everyone. We're happy to have this opportunity to tell you what's been going on with Rand. For those who are following along, I'm going to start on Slide 3 which highlights our third quarter.

At the end of the quarter, our net asset value, or NAV, stood at \$5.01 per share, a slight increase from the end of last quarter. Dan will go over all the financial results later in this discussion.

This quarter's investments included a \$100,000 convertible unsecured note, funded from our new small business investment company, or SBIC, fund under the U.S. Small Business Administration's pre-licensing approval protocol. I will touch on the status of our relationship with the SBA in a moment. The investment was in a company called Centivo which is a development stage, tech-enabled health solutions company. They've got a really interesting idea to help self-insured employers and their employees save money and have a better experience. To do this, they are developing technology and administration services that they intend to provide the self-insured companies.

Recall that in the last quarter and over the last year, we filed our application to establish our second SBIC fund with the Small Business Administration. We're hopeful to receive approval for \$15 million of debenture leverage later this year. As previously noted, this will be in addition to the \$8 million of debentures that we currently have with the SBA. We intend to use these funds to further our growth strategy.

Also, I want to note that the Board recently extended approval of our share repurchase program through October 26, 2018. We have approximately 460,000 shares available for repurchase under the



program. This is really dependent on the availability of excess cash at our corporate level. Funds that are within our SBIC are not available for share repurchase.

We can all now turn to Slide 4. We're going to take this opportunity to feature some of the companies within our portfolio to give you insight into them. We plan to do this on some of our portfolio companies with you each quarter, to give you a better sense of what's going on with our portfolio. Let's start with one of our newer investments which is PostProcess. This Buffalo-based company has a unique product offering in a fast growing market, and that's 3D printing. They have developed efficient and comprehensive solutions for the processes that are required after the instrument or the device has been 3D printed. They include software, hardware and proprietary chemistry. They recently launched a new product. It's the world's only 2-in-1 machine that accomplishes two post-print automated processes at one time. It finishes the surface of a 3D printed product and removes the structural supports that are required in the 3D printing process. Last year, PostProcess had three employees and they have now grown to 26. They have big growth plans to support this rapidly expanding market. We first invested in them last year with a convertible note valued at \$300,000.

Next is GiveGab out of Ithaca, New York. They provide a user-friendly and secure social platform that connects donors and volunteers with non-profit organizations. A significant driver of their growth is what they call "Giving Days" which are designated days organized by non-profits to encourage donations on a single day. Two thousand and seventeen is proving to be a breakout year for this company. There are 8,000 non-profits registered to raise money on their platform. Their revenue on transaction volume is up considerably. Revenue is on pace to grow more than 600% in 2017; and transaction volume is expected to be up more than 900% this year. We started investing with the GiveGab team in 2013 and currently have approximately 7% ownership stake valued at \$424,000.

The third company in our portfolio that I'm going to talk about is Knoa, a New York City company. They provide solutions to optimize and create efficiencies for the end users of highly integrated enterprise resource planning, or ERP systems, such as SAP. Earlier this year, they launched a new version of their SAP User Experience Management application. It provides support for SAP platforms, including S/4HANA and the SAP SuccessFactors HCM Suite. Knoa's SAP User Experience Management reduces the costs and risks of system conversion projects by providing visibility into user behavior and effective use of SAP software. They also provide user analytics tools for a broader range of operating environments, including mobile devices, browser configurations and business applications. We first invested in Knoa in 2012, currently own about approximately 7% and our equity value is just under \$500,000.

Slide 5 is an interesting way to look at our portfolio. That's where we segment it by revenue stage. We have characterized all the companies within our portfolio based on their current revenue level, from start-ups on the left, to expansion, then to what we call high traction on the right. This last quarter, a few of the ones that were in the Start-up stage have moved into the Initial Revenue stage, that being ACV Auctions, OnCore and GiveGab, that I just spoke to you about. Our new investment this quarter, Centivo, is in the Start-up category as is PostProcess, that I just featured. Finally, the third company that I featured for you is Knoa, which is categorized in the Expansion stage with revenue between \$5 million and \$20 million.

As I've mentioned previously, as companies progress to the right, they may start to develop exit plans from our portfolio. It's virtually impossible to predict how quickly or slowly these transactions will take. They're all dependent on the market conditions.



Now, we're going to turn to Slide 6. If you've followed us, you know how diverse our portfolio is, and that the breakdown by industry category doesn't change dramatically over time. Consistent with our strategy, we're a diversified Company. We invest in almost all industries with the exception of real estate, retail and financial services.

If everyone gets a chance to turn to Slide 7, we have dissected our portfolio into capital characteristics; debt or equity are the two basic choices. Our strategy is always focused on capital appreciation to grow our net asset value. Accordingly, our portfolio has been more heavily weighted towards equity as opposed to debt instruments. However, we may adjust our near-term investment objective depending on the mix of the cash flow stream within our portfolio. Over the past year or so, our mix has been focused on building investment income so that we develop a cash flow balance to cover our expenses. Given the investments we've made over this time, we are pleased to report that we are nearing operating cash breakeven.

If I give people a chance to turn to Slide 8, this is a snapshot of our top five investments in our portfolio based on the market value as of September 30. The top five is relatively unchanged from last quarter. Our portfolio was valued at \$31 million at the end of September and includes 30 active companies. The value of our investment in the top five comprised about half of our portfolio value and, as you can see here, they're weighted towards healthcare and the software industry. Given their significance in our portfolio, I will once again summarize them for you.

Our top investment is with Genicon, valued of \$4 million. This firm is based in Orlando, Florida and they design, produce and distribute patented surgical instrumentation. We invested in them beginning in 2015.

The second largest investment in our portfolio is eHealth and it's valued at \$3.5 million. Based in Rochester, New York, they provide a proprietary electronic platform to aggregate patient clinical records and images to support medical referrals. Our initial investment into eHealth was in 2016.

Rheonix follows closely behind with our investment of \$2.9 million. This Ithaca, New York company develops fully automated molecular assays for use in research labs, for both medical as well as food and beverage applications. We started investing with this team in 2009.

Fourth is Outmatch, with our investment valued at \$2.1 million. They are in the business of helping companies be more productive, providing tools to facilitate hiring people who are the right match for the job. Based in Dallas, Texas, Outmatch provides workplace analytics driven from candidate assessments which have been proven to predict employee performance. We started investing in them in 2010.

Rounding out the top five is SocialFlow, with our investment at \$2.1 million. SocialFlow handles online customized advertising for electronic publishers including Facebook, Twitter and LinkedIn. They also provide data-driven solutions for social media marketing campaigns. Many major publishers including National Geographic, Time, Inc., Condé Nast and Bloomberg utilize their products. We started investing in them in 2013.

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

Daniel P. Penberthy: Thanks, Pete, and good afternoon, everyone. If you could please turn to Slide 10, and I'll start with the net asset value per share, or NAV. As Pete mentioned, we did finish the quarter with the net asset value at \$5.01 per share. As you can see, NAV increased a penny per share over the trailing quarter, as our investment income has been growing and we are nearing operating



cash breakeven. Additionally, during the third quarter of 2017, we recorded favorable market value appreciation which I'll discuss in more detail on the next slide. The reduction in NAV since the December 2015 peak is a natural progression as the companies in our portfolio both succeed and struggle in their respective markets.

The end of 2015 was the timing of our last exit, which was Gemcor. We realized a sizable gain on that exit which helped us monetize our unrealized appreciation and helped drive net asset value. Gemcor was also a strong cash flow provider for us and, since then, we have been focused on rebuilding our portfolio to include more cash flow generating assets. These investments are helping us to more fully cover our expenses on a quarterly basis over time. Additionally, exits result in Rand realizing an investment's full potential but we know from experience we can't rush exits or predict their timing.

Please turn to Slide 11. Here, I've summarized our operating performance for the third quarters of 2017 and 2016 as well as comparable year-to-date periods. As we've previously mentioned, in the near term we have been investing in more financial instruments which increase our interest income and you can see the results.

Our third quarter investment income of \$397,000 is up 26% over last year and our year-to-date investment income of \$1.075 million is up 47%. Additionally, our Q3 expenses of \$439,000 are 10% below last year.

Year-to-date total expenses were 46% lower than last year. Last year's expenses included Gemcor exit-related transaction expenses, certain taxes and incentive compensation costs.

Regarding the realized and unrealized changes in our investment, these are in accordance with our valuation policy. We recorded an \$83,000 net-of-tax unrealized gain on our investment in Athenex this quarter. As we reported last quarter, Athenex did go public in June of this year but our shares had been restricted from trading and were valued at a discount. The market value of these shares increased during the third quarter and did result in unrealized appreciation that we reported. Our shares are now valued at a 10% discount due to the restriction as of September 30. However, these restrictions have since been lifted during the fourth quarter and we intend to liquidate our position during this fourth quarter of 2017.

Last year's third quarter included some unrealized losses, amounting to \$457,000 net of tax. These reflect fluctuations in portfolio Company operating conditions. Looking at this year's year-to-date net unrealized loss on investments of \$638,000, we identified that we have recorded some unrealized losses during the first half of the year, also due to portfolio value fluctuations.

The 2016 year-to-date realized and unrealized gain on investments of \$364,000 was primarily driven by finalization of our accounting for the Gemcor exit. These factors impacted our bottom line comparability. The 2017 third quarter resulted in an increase in net assets from operations, while the 2016 third quarter and both year-to-date periods reflected a decrease. The respective per share amounts are also shown here.

Please turn to Slide 12. Our balance sheet continues to remain strong. On a per share basis, we have \$1.01 of cash, \$4.86 of portfolio investments at the end of September. Our portfolio growth has benefited from and has been partially funded by our past SBA leverage, for which we have \$1.27 per share remaining due to the SBA as of the end of the third quarter. We also have \$0.41 per share of other net assets and liabilities. This all adds up to our net asset value, or NAV, per share of \$5.01. With that I'll turn it back to Pete.



Allen F. (Pete) Grum: Thanks, Dan. In closing, I'm hoping that you can see there is a lot of excitement going on with Rand and its portfolio of companies. We, as a management team, are working hard to take the Company to the next level by driving our growth strategy. We hope to soon have the additional SBA capital to put to work and we have a wide variety of opportunities in our pipeline.

With that, let me open it up the line for questions.

Operator: Thank you. We will now be conducting a question-and-answer session. If you'd like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in a question queue. You may press star, two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment please while we poll for questions.

Thank you. Our first question comes from the line of Sam Rebotsky with SER Asset Management. Please proceed.

Sam Rebotsky: Yes, good afternoon, Pete and Dan.

Allen F. (Pete) Grum: Hi, Sam. How are you?

Sam Rebotsky: Good, good. Do we expect to have any exits by the end of the current year besides the Athenex?

Allen F. (Pete) Grum: We can't predict those with any degree of regularity. We have some that are talking with investment bankers. We do intend to liquidate our position in Athenex, and I guess, without going into insider information, that's where I'll leave it.

Sam Rebotsky: Okay. Now, you've indicated that before the end of this quarter, you expect to get the SBA loan, is that like 100% that's happening?

Allen F. (Pete) Grum: No, and let's make sure that I'm clear. What we were trying to get is a commitment that would allow us to borrow and get approval from the SBA on our new fund. We met with them a couple of weeks ago, Dan and I, at a trade show. The guy who's running it went to great lengths to describe how busy they were, that the SBA is a big part of the recovery of Puerto Rico and the places that got hit by the hurricanes. But we've been in that process for some time and we guess by the end of the year we will know an answer one way or the other but we would think hopefully in the next month or so we will get a positive answer. That's what we have put all our efforts into because that's a big part of our growth strategy.

Sam Rebotsky: Okay, okay. Now, as far as your portfolio, you spoke of the positives there. What about the stocks that you have losses on? For example, what's your expectation for City Dining Cards, the teller service that you've written down to zero? Are there any expectations of realizing any kind of value out of some of these investments, or what is your expectation?

Allen F. (Pete) Grum: Well, at the end of the quarter, in accordance with our valuation policy, our expected value is zero and that's reflected in our valuation. There is some possibility that they may come back but at this point we're not predicting any of them.

Sam Rebotsky: Do you work with them to try to find a buyer or to find a way if there is a value to sort of do something with some of these investments?

Allen F. (Pete) Grum: We do, and we're in contact with them and without going into specifics, we have other companies that are still working and robust, such as iPacesetters, or Teleservices Solutions, which is a fairly large company. We just believe that at this time, given where we are in the capital



structure, at this point, if there was a liquidation we wouldn't receive anything. Now, that can change over time as companies grow or not grow and we continue to evaluate them every quarter. But, at this point, our expected proceeds are zero and zero.

Sam Rebotsky: Okay. One final question right now. With the stock trading at a 40% discount to your stated valuation, even though some things are written down, and with your cash, it would appear the market is not giving you sufficient respect and possibly, even though you may find the need for cash, it may be a very good investment to buy your own shares with the authorization that you have. What do you think of that?

Allen F. (Pete) Grum: Sam, us being able to buy shares back is dependent on where we have our cash. The cash that is in the subsidiaries, it is only for SBIC investments, and those tend to be private companies that are allowed. The cash that we have at the parent may be used to buy shares back. At this point, we have limited cash available for share repurchases. Conceptually, I agree with you 100%, and academically I agree 100%. At this point, I would tell you, from my perspective, we don't have excess cash to buy shares back. If we can get the Company to where we do have the excess cash, it's first on our list.

Sam Rebotsky: Okay, then what I would suggest you try to do, in other words, hold back on some investments and try to create cash at the subsidiary level. As long as the stock trades at this level, use some of this cash to buy some shares in the open market. That way you could achieve that and improve and give basically a dividend to shareholders with the 40% discount. That would be my judgment at this point in time.

Allen F. (Pete) Grum: I want to make sure I'm clear. The money that is in the subsidiary level is not available to purchase shares back. It's only at the parent.

Sam Rebotsky: What do you need? In other words, you have no money at the parent, what do you need to get money at the parent? If you could get \$1 million at the parent level, you then could buy some shares? What do you need to get money at the parent?

Allen F. (Pete) Grum: We can take money from the subsidiaries when we have enough positive net worth. It's an SBA regulation and protocol that we follow. I understand what you're saying about buying shares back, and I wish we had cash at the parent to do that. At this point we don't.

Sam Rebotsky: Okay, all right. Good luck.

Allen F. (Pete) Grum: Thank you, Sam. We always appreciate your support.

Sam Rebotsky: Okay. Thank you.

Operator: Thank you. Again, if you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. Thank you.

Our next question comes from the line of Bill Nicklin with Circle N Advisors. Please proceed.

Bill Nicklin: Hey gentlemen, how are you doing?

Allen F. (Pete) Grum: Hi, Bill.

Bill Nicklin: Good. Does the parent company have the ability, given how low borrowing costs are now, to borrow money and repurchase shares?



Allen F. (Pete) Grum: It may. I'd have to go into the regulations about a BDC and leverage amounts but I don't think it counts the SBA leverage as part of the same. We have not looked at that and we'd have to spend some time trying to figure out who would borrow and who would lend us money.

Bill Nicklin: Given, I don't know how many assets would be free to use as collateral and so forth but it just seems to me with the success you've had investing, that greatly exceeds today's cost of money and it might be in shareholders' best interests to borrow money if you could to repurchase shares at roughly a 40% discount to their net asset value. I would just suggest we take a look at that.

Allen F. (Pete) Grum: Okay. Taking notes right now. For your information, there are very few assets that are at the parent level.

Bill Nicklin: Right.

Allen F. (Pete) Grum: The ones that are in the subsidiary—the SBA has a first lien on that.

Bill Nicklin: Right. Well, any little bit you can find, it might make some sense. I mean, if it was trading at a 10% or 15% discount like most closed end funds or your peers, which there are only a few, that would be one thing but trading at this size of a discount, well, extraordinary opportunities should be addressed with extraordinary actions, I guess is the best way to put it. Anyway, just a thought, if there is something and you guys are smart capital allocators, smart investors and you know a lot of smart folks so maybe somebody's out there to help us out in this kind of a transaction.

Allen F. (Pete) Grum: Okay. Thank you.

Bill Nicklin: Sure.

Operator: Thank you. Our next question comes from the line of Sam Rebotsky with SER Asset Management. Please proceed.

Sam Rebotsky: Just along those lines, to the extent if Athenex is sold and it becomes cash, does that automatically go to the SBA?

Allen F. (Pete) Grum: Yes, that's an asset of our first SBIC fund and that's where it's at. There is only—we have a gas pipeline and a few other smaller investments that are at the Parent and those were done 12, 14 years ago but Athenex is owned by SBIC-1.

Sam Rebotsky: The \$7.8 million is balanced to the SBA. In other words, you have to get it down to zero to be able to use the money? I'm trying to understand what percentage of your assets have to be held against that liability.

Allen F. (Pete) Grum: Well, they're all owned by the SBIC. We have the ability to upstream cash under certain circumstances where we have enough positive net worth and there are some rules that are part of the SBA regulations that dictate that. Our SBIC-2 was created because we sold certain investments and we took cash out of SBIC-1 up to the parent and then back down to fund SBIC-2, but the ability to take money out is created by having positive investing results—exits.

Sam Rebotsky: I'm trying to understand what dollar amount has to be held aside. You've drawn cash out from the Gemcor exit for the next fund. But you're not going to have flexibility with this money to buy any stock? When you did buy stock before, you had flexibility, I don't understand.

Allen F. (Pete) Grum: I wish there was a very clear answer, but if we have money at the parent that had come from various things. When we do have the ability to take money out of the parent, we tend to do that and it is not just one formula but it's primarily if we have cash proceeds from a successful exit, we can look at taking those out of the subsidiary and into the parent.



Sam Rebotsky: Well, I would think you know how to work with the SBIC and try to figure out and carve some money out for this limited amount and I think you have plenty of coverage with all your assets. With the stock selling at a discount, it would be helpful and I think the objective, if the stock traded higher, you would have more flexibility in raising more funds. It defeats the purpose. You're, in essence, a bank without any abilities. Anyhow, that's my thought at this point relative to the utilization of your cash. Hope you could work it out. Thank you.

Operator: Thank you. We have no further questions in queue at this time. I would like to hand the floor back over to management for closing remarks.

Allen F. (Pete) Grum: Thank you. We enjoyed talking with you today and talking about this quarter. For those of you, feel free to call us in between quarters at any time. We look forward to talking to you next quarter.

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