



Operator: Greetings and welcome to Rand Capital Corporation First Quarter 2018 Financial Results Conference call. At this time all participants are in 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 Deborah Pawlowski, Investor Relations for Rand Capital. Thank you. Please go ahead.

Deborah Pawlowski: Thank you and good afternoon everyone. We certainly appreciate your time today for Rand's First Quarter 2018 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 look at the slide deck and turn to slide two, we will review 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 either on our website or SEC.gov.

So, with that, let me turn it over to Pete who is going to summarize the highlights for the quarter with Dan then following with more details regarding the financials. Pete.

Pete Grum: Good afternoon everyone. We're happy to have this opportunity to update you on Rand's first quarter.

Let me start with slide three. At the end of the quarter our net asset value or, as we describe it, NAV, was \$4.97 per share, down from \$5.05 at the end of 2017. This decline of assets was primarily due to two factors. It was down a nickel a share, \$0.05 per share due to unrealized losses we recorded on certain investments. This was from our normal quarterly review we performed based on their operating requirements. Number two, we incurred a \$0.03 per share net investment loss since our expenses exceeded our income for the quarter. During the quarter our expenses included higher legal costs associated with our SBA process and also some bad debt expense.

During the first quarter, we made two follow-on investments in portfolio companies totaling \$450,000. The first, \$200,000 in Centivo, a new type of self-funded healthcare plan. This is our second investment in Centivo. The other investment in the quarter was \$250,000 in SciAps, Inc., which completed a Series D \$10 million financing round in which we acquired 147,059 shares at a \$1.70 per share.



As you know if you listened to these in the past couple of years, our focus has been on vehicles to build investment income. That resulted in a 10% increase in investment income over the prior year quarter. Dan will go over the financial results later in the discussion.

I also want to update you on the status of our ongoing discussions with the Small Business Administration. During the first quarter we determined that our optimal organizational structure would be to revert back to investing in small businesses through our original SBIC subsidiary. As such, we consolidated our second SBIC fund into our original Rand SBIC. We continue to work with the SBA and anticipate concluding this work in the next several months. Our goal is to gain more leverage and continue our mutually successful relationship with the SBA. To that point, we intend to apply for an additional \$6 million in leverage through the original SBIC, Rand SBIC.

Turn to Slide four. I want to take the opportunity to feature some of the companies within our portfolio, as a way to give you insight into them. As you may recall we have been doing this each quarter to give you a better sense of what's going on with our portfolio companies. What I'd like to start with is ACV Auctions. Based in Buffalo, New York ACV Auctions has a mission to become the trusted source for dealers to purchase wholesale vehicles. The ACV Auctions mobile platform began with a thorough vehicle report that allows potential buyers in an electronic auction on a vehicle that is about to begin. This mobile application includes auction operations, title management, floor plan purchasing, arbitration, and logistics.

ACV Auctions announced this quarter that it has secured \$31 million in Series C venture funding. Although we did not participate in this round of funding, we view this as a positive sign providing the Company with growth capital. Concurrently the company announced that they're selling over 1,000 cars per week and growing rapidly with over 400 new dealer sign ups per month. By the end of 2018, the company plans to double its local presence to over 70 markets by expanding to the West Coast compared to the 35 markets nationwide it currently serves. The company is poised to offer its world class technology in leadership by disrupting an established industry. In March, the company reached a major milestone by selling more than 5,000 units online valued at a total of more than \$35 million in vehicle inventory sold.

The next company I'd like to talk about is SciAps, a company headquartered in Woburn, MA., that designs and manufactures portable analytical instruments which identify virtually any compound, mineral, or element on earth. The company recently expanded its offering of the world's most precise handheld micro analysis tools by introducing the Z-200. A versatile, first of its kind, handheld device, not only does it measure carbon, steel, and stainless steel, but it also can measure lithium in rocks and brine.

Additionally, the company announced the introduction of a new model, the X250, an X-ray analyzer designed to be the fastest grab sorter in existence. Currently, it's 10 times faster than any other X-ray gun. The investment of \$250,000 in Series D shares brings Rand's March 31st fair value total to \$2 million.

Next is Outmatch Holdings which is based in Dallas, Texas. They are a leader in delivering actionable predictive analytics to build world-class work forces, reduce your turnover, and accelerate employee time to hire. The company looks to continue milestones reached in 2017 when it saw substantial growth fueled by the acquisition of a leading culture analytics firm, the launch of a robust new platform, and several industry-specific recognitions. The company



retained a net 98% of the 60 new clients it onboarded in 2017, which helped drive double digit year-over-year recurring revenue growth.

On April 3rd, 2018, Outmatch announced plans to incorporate machine learning to analyze large datasets from assessments in their platform for both candidates and the companies looking for candidates. A more streamlined pre-hire assessment should benefit larger less-decentralized organizations with large volume hiring needs such as at hospitality, retail, healthcare and property management industries. Our investment in Outmatch to date since our initial 2010 investment, is valued at \$2.1 million.

If we go to Slide 5, it shows the logos of all of our companies in our portfolio categorized by revenue stage. You've seen this before with start-ups on the left, initial revenue, expansion, and then what we call high traction on the right. Regarding the three companies we just featured, you can see all of them, ACV Auctions, SciAps and Outmatch, all in the expansion revenue category. We didn't have any companies move since we last reported on this in March.

As I 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 market conditions.

Slide 6 is a new slide and it's a new perspective on our portfolio companies, one based on our investment period. The average age a company is currently in our portfolio is 4.8 years. Centivo is the most recently added company to our portfolio, joining in the fourth quarter of 2017. We have three companies that have been in the portfolio for one to three years and eight of them have been between three to five years. As you can see, the majority of the companies sit at or above the five-year time horizon. Today, 18 companies are in there. Our normal investment period is approximately five years.

Now, let's turn to slide seven. You likely know how diverse our portfolio is, and that the breakdown by industry category doesn't change drastically over time. Consistent with our strategy, we are and have been a diversified company. We invest in almost all industries with the exception of real estate, retail, and financial services. Year-over-year comparisons as of March 31st indicate that the industry classification has basically been unaffected by the fair value of our investment.

I'd ask you now to turn to Slide 8. As we dissect our portfolio into capital characteristics, with debt and equity being the two main choices, our strategy has always been on capital appreciation to grow our net asset value. Accordingly, our portfolio is more heavily weighted towards equity as opposed to debt instruments. However, we adjust our investment objective depending on the mix of cash flow stream within our portfolio. As this slide illustrates, the trend since 2015 has seen more diversification over time. Over the past couple of years, we've focused on building investment income to generate cash flows to cover our expenses. Consequently, at the end of this quarter, March 31st, 2018, nearly 60% of our investments were in equity and about 40% were in debt.

I'd ask you now to turn to Slide 9. This is a snapshot of the top five investments in our portfolio based on values at the end of March. As previously noted, our portfolio was valued at over \$32 million and includes 30 active companies. The value of our top five investments consistently comprises about half of our portfolio, and as you can see, they're weighted towards healthcare.



Since these five are unchanged from last quarter, I won't go into a lot of detail on that again, but I will give you a quick summary.

Our top investment was with Genicon. This firm is based in Orlando, Florida, and they design, produce, and distribute patented surgical instrumentation. We started investing in them in 2015.

Second largest in our portfolio is eHealth. 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 next. This Ithaca, New York Company develops fully automatic 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 Tilson from Portland, Maine, that constructs, deploys management and manages cellular fiber optics and wireless information systems in which we have been also investing since 2015.

Last is Outmatch, which we described a minute ago. They're in the business of helping companies be more productive, and providing tools to facilitate hiring people who are right for the job. Based in Dallas, Texas, we started investing in them in 2010.

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

Dan Penberthy: Thanks, Pete, and good afternoon, everyone. If you could please turn to Slide 11, I'll start with the Net Asset Value per share, or NAV. As Pete mentioned, we did finish the quarter with Net Asset Value at \$4.97 per share. As you can see on the chart, NAV did decline \$0.08 per share over the trailing quarter. This decrease is attributable primarily to two factors.

First, our valuation policy has us review the fair value of our investments each quarter. This sometimes results in unrealized appreciation or depreciation in fair value. This is based on the operating performance trends of the particular portfolio companies. During the quarter, we did recognize unrealized depreciation in fair value. This amounted to about \$0.05 per share.

The second factor pertains to the fact that our expenses exceeded our investment income this quarter. This, I will touch on in the next slide. This impact was about \$0.03 per share.

Please turn to Slide 12. Here, I summarize our operating performance for the first quarter of 2018 and also 2017. I'll take you through the key line items noted here.

As we've previously mentioned, we have been investing in more income-producing instruments over the past couple of years. This has increased our investment income. You can see the results. Our first quarter investment income of \$363,000 is up 10% over last year. However, our first quarter expenses of \$589,000, are 14% above last year. The increase in expenses was due to approximately \$17,000 of higher professional services costs associated with the ongoing SBA process, as well as \$49,000 of bad debt expense directly related to the portfolio.

As I mentioned in the last slide, we do record unrealized losses on certain investments in accordance with our valuation policy. The impact was about a \$103,000 more than the same



period of last year. There were no portfolio exits this quarter. However, we did have one loan repayment from KNOA, who did repay a small promissory note during the quarter.

To summarize, the 2018 first quarter resulted in a decrease in net assets from operations of \$0.08 per share compared with a \$0.06 decrease per share in the 2017 first quarter.

Please turn to Slide 13. Our balance sheet continues to remain strong. On a per share basis, we have \$0.87 of cash at the end of the quarter. This includes \$0.49 per share which resides at the corporate parent level, and \$0.38 per share in the SBIC which is available for investing. Our portfolio investments are valued at \$5.10 per share at the end of the quarter. Our portfolio growth has benefited from, and has been partially funded, by our past SBA leverage for which we have \$1.27 per share due to the SBA as of March 31, 2018. We also have \$0.27 per share of other assets, net of liabilities. This all adds up to our Net Asset Value, or a NAV per share of \$4.97 cents.

With that, I'll turn it back to Pete.

Pete Grum: Thank you, Dan. If you could please turn to Slide 15.

When we reemphasize our cash flow and capital priorities, our first and foremost priority is to execute on our business plan, which calls for investments that deliver both high returns as well as cash for reinvestment. As we consider our various alternatives, we are also focused on structuring our investments to deliver sufficient cash flow to cover our ongoing operating and financing expenses.

Finally, we may also consider returning capital to shareholders on an opportunistic basis when cash flow dictates good timing.

Before we open lines for questions, I want to say I hope you can see there's 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 to have additional SBA capital to put to work as we have a wide variety of opportunities in our pipeline.

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

Operator: Thank you. Our first question comes from the line of Sam Rebotsky with SER. Please go ahead with your question.

Sam Rebotsky: Yes. Good afternoon, Dan and Pete. I'm sorry I didn't get up to the annual meeting, but I got a bunch of questions today and I'll try not to jump out of the queue and come back.

Pete Grum: That's fine, Sam.

Sam Rebotsky: Okay. The first question deals to the valuation of your investments. SciAps, you put in \$250,000 and they're valued at \$1.70 per share. The previous investments, what was the value per share of those investments?

Pete Grum: I don't have those off the top of my head and Dan is looking through his schedule.



Dan Penberthy: You could actually do the math if you go through the portfolio because we do identify number of shares that we hold and the specific cost and value for each one of the categorizations.

Sam Rebotsky: So, would you say that the value per share is higher or lower than previously?

Dan Penberthy: The previous rounds, just doing the math in my head, Sam, if I recall are in the \$1.50 range, \$1.55 range. The new financing came through, as Pete mentioned, in the Series D, at \$1.70. The Series D does have preference over the C because we are in there as both an A, an A1, a B, a C, a C1, and a D. So our valuation that we had established at December 31st, 2017 on an enterprise value, pretty closely approximated what this financing came through at in the first quarter. So, we're priced right on this valuation for the quarter based on the recent financing.

Sam Rebotsky: So, if the previous ranges were lower, do you mark them up to the \$1.70 for all the investments?

Pete Grum: No, we don't, Sam. This is not part of our protocol, and you and I have talked about this and I think it's a good point. But other words, when we have substantially the same investors, our accounting protocol does not allow us to change that valuation. So, you will see in our portfolio where the company has raised new money with the same investors at higher prices. But we don't go back and mark up our previous investments, but that's a good point.

Sam Rebotsky: Okay! So, even if you don't mark it up, could you indicate what the price has previously done? Assuming a shareholder wanted to take that into consideration because with your stock trading at \$2.50 or \$2.55, which is 50% to book more or less, this is not factored in.

Pete Grum: That's a good point, Sam, and let us work on something for the next quarter.

Sam Rebotsky: Okay. As far as Carolina Skiff, you're in the section with \$20 million plus revenue. Does that mean that each of those investments, including Carolina Skiff has more than \$20 million of revenue?

Pete Grum: They have substantially more than \$20 million in sales.

Sam Rebotsky: Is there a reason that the dividend for Carolina Skiff is lower this quarter than the previous quarter?

Pete Grum: It's not a standard dividend. What it is, is they remit money because it's an LLC for us to pay taxes associated with the income they're allocating towards us. As you know, with the decrease in the federal tax rate, the dividends in that respect are going to go down.

Sam Rebotsky: So my judgment would be based on your 7% and the \$170,000 plus, this would be valued at about \$20 million, and with Malibu trading at \$800 market valuation and they issued earnings today and their stock is significantly up, and their book is about \$127 million with an \$800 million market valuation. How would you value Carolina Skiff relative to this Malibu Boat Company?

Pete Grum: Well, it's not really relative because one is a private and one is a public company. We annually take a look at Carolina Skiff and, on a very conservative basis, value it as a



multiple of the cash flow on this business. So we have a very conservative valuation but to make a bridge between a private and public company, I would be reticent to do that.

Sam Rebotsky: If there were more numbers relative to sales and earnings, shareholders could compare a valuation, what they might be considering in public and private. The other thing is the bad debt. What is the bad debt of \$49,000 and as far as the additional legal expenses for working with the SBA, how much did we charge in the current quarter?

Dan Penberthy: So, the bad debt is directly tied to the portfolio valuations and you would notice that we did take some adjustments to Empire Genomics during the quarter. I think that was the largest piece. So it's in relation to the operating characteristics of the company, their financial performance, how much cash is being paid on a current basis, and just like any receivable, how we feel the likelihood of collectability is on the interest receivable, and so we took a hard look at these and made the appropriate adjustments to the bad debt on the interest receivable. Typically, you would think that is the initial indicator for future possible valuation changes. It's no different than any other trade receivable.

Sam Rebotsky: How much did we charge for legal expenses relative to the SBIC?

Dan Penberthy: Twenty-seven thousand.

Sam Rebotsky: In total?

Pete Grum: Yes. I think it was \$27,000 in the quarter.

Dan Penberthy: Buck and a half in total so far.

Sam Rebotsky: Yes. It was \$133,000 you had mentioned previously. So, okay. As far as one of the key things that I thought about, and I wanted to address this at the annual meeting more so, but we've discussed cash and buying stock, that cash dividend, and we do have some thoughts relative to paying a dividend between cash and combined with stock to meet the requirements of giving the shareholders something back. Because with the charge of the net asset value, if you put the prices of stock in at each time, you'd see maybe the net asset value stayed the same or went up a bit. Previously, the stock has come down, and somehow it would appear to me that using cash would be a very good way to return some to these stockholders and buy some stock in the open market.

Pete Grum: We do look at that and you and I talk, I think every month or so, about that, Sam, and we look at that in the realm of running the company and what we would consider excess cash and cash available, either for a dividend or a buyback. Obviously based on our actions this quarter we did not do anything, we do have the ability. You know in previous years, we bought a half million shares back when we made that test and thought we had extra money.

Sam Rebotsky: But one thing, it doesn't take cash to give a stockholder dividend. I would say to return the shareholders that might create some kind of interest in the stock for those who want it. If you created a dividend with some stock, and if you had cash to create some nominal amount of cash to combine this, this is my thought, if a transaction happened, and you got some additional cash, do something good. On the slide that you indicate the return of capital to shareholders opportunistically, this would be one way that would make shareholders more comfortable with the lower price of the stock.



Pete Grum: I think that's something we will look at it, Sam.

Sam Rebotsky: Good luck, and if I have some other questions, I'll jump back in. Thank you.

Pete Grum: Sam, thank you for your interest.

Operator: Our next questions come from the line of Bill Nicklin with Circle N Advisors, please go ahead with your question.

Bill Nicklin: Hi, how are you guys doing?

Pete Grum: Good, and how are you, Bill?

Bill Nicklin: Good. I probably should know this, but I don't. Are all of your investment assets pledged against the SBIC loan or are some of them segregated for that purpose and some not?

Pete Grum: Anything that we have identified as an SBIC investment is pledged in a general sense to the SBA as a senior lender. We have a small number of investments that are at the parent level, I believe it's two or three. They only want a significant value as we have a gas pipeline that runs across Ohio but for conversational purposes, everything that is in the SBIC is pledged to the SBA.

Bill Nicklin: All right. So, should you get taken out of that investment in some way, IPO takeover, whatever, all of that cash received has to be retained as collateral as well?

Pete Grum: There's a set of protocols that we have to follow that they look at, in essence. It's called read, realize, retain their data available for distribution, and based on whether that's positive or negative, we can take some money out. We have done that historically over time and put it back into the SBIC as a way to get more leverage in to do bigger deals, but there are ways to take the money out.

Bill Nicklin: All right. So, as a shareholder, I know Sam is much more up on this than I am, but it would seem to me that if there were some dividend to be paid and it wasn't from a situation where we have more income-producing investment and therefore less equity exposure, that all the money that could be paid out would have to be retained, have to be paid out after provisions for that SBIC, let's call it a relief formula.

Pete Grum: Okay.

Bill Nicklin: Is that correct? Let me put it this way. Let's say we had a dollar's worth of assets as collateral for the SBIC loan under the terms that you have with them. Then let's say that some portion of that dollar was represented by the investment that was turned into cash. You then have to make the calculation to see how many pennies would be left over after making the calculation and then that's the money that would be available to shareholders, if in fact there was any into the formula.



Pete Grum: That's a good way to look at it. Now remember, we're always looking at least three years out, our exits are hard to force because we're a minority investor and can't predict. We have a fairly detailed model, but your concept is correct.

Bill Nicklin: Right. All right. I guess that would also apply then, let's say one of the companies you have an investment in went public or was taken over for stock by a public company. It would be just as difficult under the formula to distribute those shares as it would be to distribute cash if in fact it was a cash take out.

Pete Grum: Correct, and then we get into some periods where we're not allowed to distribute or even sell a share, then a lockup period. That's so uncommon. But you are correct. It's hard to get the money moved around.

Dan Penberthy: Basically, you're right. It's in a restricted bucket and it's hard to get it to an unrestricted status.

Bill Nicklin: Right. So the whole idea of returning capital to shareholders opportunistically, it isn't that easy to do.

Dan Penberthy: You are correct. Yes.

Bill Nicklin: Okay. Yes, I think I understand it. Thank you.

Pete Grum: Okay, thank you, Bill.

Operator: Our next question comes from the line of Brett Reiss with Janney Montgomery Scott. Please go ahead with your question.

Brett Reiss: Yes, good afternoon. I'll stipulate, Pete, Dan, you're honest and hardworking guys. But the reality for me, I started to buy this stock personally for clients at \$3.25 to \$3.50 in the fall of 2013. It's four and a half years later and the stock's at \$2.57. Putting yourself in my shoes, how much longer do you think I'll have to be patient before I see the discount to NAV and the market price narrowing, when I can make a decent return on my client's investment?

Pete Grum: I don't have an answer for you as most of my net worth is also tied up in RAND stock. We've followed it down and the BDC space has particularly gotten hit and so we followed the market but that's not a good answer for anyone that's involved with us.

Brett Reiss: I just raise it because Mr. Rebotsky is exploring different ways to return capital to shareholders. I just hope if an opportunity does present itself that it's on your radar screen because I and my shareholders, we're not instant gratification jockeys. We've been very patient and loyal, but it's been a long time. I hope you take that into account.

Pete Grum: Let me address some of the things, and I think we last published this two years ago. We as a Board went through and looked at everything from shutting the place down and letting the money come in, having someone come check the mail once a quarter and see if there's checks, sending them back to the shareholders, to de-listing, to growth through the SBIC, to putting ourselves up for sale, and that was a very extensive process. The thing that we can control is growing through the SBIC, but we engage and will continue to engage anyone that's interested in buying Rand, anyone that's interested in merging with Rand, we are



interested and do pursue those conversations. It frustrates us as much as it frustrates you. The only thing we can control and which we're going to do is to continue to grow the business through our investing activities and making good investments. If any other opportunity comes up, we will pursue it with another larger, smaller, whatever size, and we've always tried to pursue taking it private—but have not yet found anyone to assist with that. We did not think shutting the company down or going dark was in the shareholder's best interests, so we did not pursue that, but anything else, the door is open and we're ready for conversations.

Brett Reiss: All right. Thank you for taking my question and giving me your frank appraisal.

Pete Grum: Thanks, Brett.

Operator: The next questions come from the line of Norman Cadizhin, Private Investor. Please go ahead with your question.

Norman Cadizhin: Thanks. Good morning, Dan and Pete. I'm wondering, the follow on investment in Centivo, was that an income-producing item?

Pete Grum: The follow on is not and the reason there is not more information is the company is going to make a large announcement and they asked us to hold off giving details. But it is a Series A stock. This is with a management team that we had invested with before and we did very well with them and are looking forward to working with them again.

Norman Cadizhin: Okay. Can you give us a little more follow up on the new SBA loan? I think you've mentioned that it would take several months before it comes to fruition. What's going to happen after we use the \$6 million? Are we still able and are we still looking to get the additional \$9 million that we were talking about in the last year and a half?

Pete Grum: The way that we believe it will work is that as we get exits, we will be able to work with them to see if that'll qualify us for more debentures going forward. This is, frankly, the transaction we tried to do a couple of years ago and then they said, no, we'd rather have you get re-licensed and then we went around in circles. But we believe, from conversations that we've had, that as we have exits, those proceeds can be used to paid down debt. But the other thing is, they also add to regulatory capital, to get more debentures.

Norman Cadizhin: Also, you've mentioned that there were possibly two or three companies that were, I'll say, old money in Rand capital, part of your initial capital. Is G-TEC Natural Gas Systems the company you were talking about in Ohio, can you tell me what the other two companies are?

Pete Grum: G-TEC is one but that's not the one in Ohio. The one in Ohio is Somerset Gas which is, I think we have on our books for about 500,000. G-TEC is another company that we continue to work with which is pre-SBIC, and I don't think that there are any other ones that are active companies that we're working with. We may have some shares in some companies but.

Dan Penberthy: Anything else is valued at zero.

Norman Cadizhin: My final question is, do we have any kind of an emergency plan that is either thought about, worked on, or is in the process, i.e., should the market have a bad six months to a year and stock prices plummet and we see our discount to NAV go to some



unknown level, do we have any kind of an emergency plan or response of putting the share repurchase program into operation?

Pete Grum: No. We don't have that, but we've talked about that with the Board. We do have the ability and we talk with the Board on a monthly basis, but we have not gone through that scenario with our NAV where it is. But it's a good thing to think about and we would certainly have the ability to repurchase shares.

Norman Cadizhin: Lastly, I apologize but I also missed the annual meeting although I was trying to make it there. Once again, my thoughts to the family of Reg Newman for being a wonderful steward for Rand Capital himself and his kind words, thoughts, and deeds will always be remembered. Many thanks.

Pete Grum: Norm, I think that's well said and we appreciate those thoughts.

Operator: Our next questions comes from the line of Sam Rebotsky with SER. Please go ahead with your questions.

Sam Rebotsky: Yes. Just a little follow up, and I also reiterate my thoughts to Reg Newman's family, he was very significant. Now, as far as the SBA, initially you expect to get more money. So, I believe you're paying 3% so that you would lend it out cautiously and that would cover all your expenses. But based on the Capital Southwest announcement, April 30th, they indicated that the SBA is basically giving less leverage going into effect April 25th of this year. If this is the case and if this makes it too difficult to cover expenses and to get enough money and it makes it more difficult to return something to the shareholder, the possibility might be if you paid a higher interest rate and had more flexibility, maybe that might be more beneficial to the stockholders. What do you think of that thought?

Pete Grum: Maybe. I got your message the other day, and I looked under Capital Southwest and couldn't find what you were referring to.

Sam Rebotsky: Okay. This was a press release that was put out April 30th under CSWC. They indicated March 20, as a result, the Board approves the required minimum asset coverage reciprocal to company will be decreased from 200% to 150% leverage effective April 25th. That's why probably it's taking you longer and less flexibility with the SBA, and this is evidently changed recently. So, they are willing to give less leverage than previously and than what you expected. So, the question comes up, if you don't have flexibility, to me, if you had the flexibility and the cash, if you paid off your SBA debt and you could buy stock in the open market, it's a 100% return, it's a 50% discount and if it came to net asset value, the shareholders would benefit significantly. That's why my thought of giving those shareholders that are dedicated and want to stay with it even though their shares would stay the same to pay a stock dividend and a little cash dividend if you could or combine it that way. So, this is the press release Capital Southwest put out April 30th. I could fax it to you or you could just see if you could look up CSWC and you should be able to find that press release.

Deborah Pawlowski: We have here, Sam. Thanks.

Pete Grum: I did read this one, but I don't believe that that's part of their SBIC program, but I will go read it again.



Sam Rebotsky: Well, it says, small business credit availability act was signed March 23rd, 2018. The required administered average coverage applicable to the company will be decreased from 200% to 150%. Yes.

Dan Penberthy: All right. Well, yes, Sam, the SBA, that's actually excluded from that calculation according to regulations if I understand them. I actually read that I thought the amount increased in another release I saw, so we'll dig into that and take a look.

Sam Rebotsky: Good luck and hopefully we can do something to give relief for the stock. In other words, hopefully if you could get some kind of valuation on comparable companies on a valuation even though you're not increasing the value, this would be somehow that people would understand that there would be an increase in the near future or later. We need to have some kind of understanding of valuations, similar companies and possibilities going forward. Okay. Good luck. Thank you.

Pete Grum: Thank you.

Operator: Thank you. Once again, as a reminder, you may press star one to ask a question at this time.

Our next question has come from the line of Bill Nicklin with Circle N Advisors. Please go ahead with your question.

Bill Nicklin: Hi, I'm back but my question has been answered. Thank you

Pete Grum: Thanks, pal.

Operator: Next question is from the line of Brett David, a Private Investor. Please go ahead.

Brett David: Well, good afternoon. How have you've been doing?

Pete Grum: Good.

Brett David: I got a couple of questions. I certainly understand, and I'm in the same boat with the other shareholders. But, I draw a little bit harder line in the sand between operating the business and the machinations of the stock market. So, you're not going to get me beating on that account. If you're running the business, you're upholding your end with high frequency trading and all the other shenanigans that go on in the stock market. It's a pretty big stretch to hold you accountable for the discount in the share price. What I would like to ask you about is the failures. So, to me it appears that the value that SciAps has dropped since the initial purchase. There's a couple others that have had some significant drops: Intrinsic Materials, G-TEC Natural Gas. Am I hitting these right?

Pete Grum: Yes.

Brett David: Yes. So, I was wondering, as part of the process of looking at new investments and reviewing what your existing investments are, what kind of, and maybe it's a little too early to use this term, but for lack of another one at the top of my head, what kind of post-mortem do you do by looking at the failures? And what best appears to be the reasoning why that happened?



Pete Grum: We probably spend more of our time on our failures than our winners. I personally don't believe a quarter-by-quarter evaluation is appropriate for the kind of investments that we make. However, that's what the accounting protocols have us do. SciAps is a management team that we invested with in the past. It was very successful, and I do believe they're going to be successful going forward, and I believe the trend in their sales and everything is good. It is taking longer, like many of our companies to get to where they are, but we have to follow our valuation policy and look at this quarterly, and it's a strange thing because we come up with a value that frankly most of the companies wouldn't sell at. But that's what we do. So, I like to believe that these companies are going to turn around, but on a quarter-by-quarter basis, we have to reflect the near term and short term of how they've been doing. If they're not going according to plan, then we have to look strongly at decreasing the value. But these are unrealized. In general, if we want to go back and track them, I'd be happy to sit down with you.

Brett David: Yes.

Pete Grum: Out of the companies that we have exited, there is about a third that we've lost some money, and a third that we've made a little bit of money, and a third that we've done very, very well. We do spend a fair amount of time reviewing the third that we lost money. There are very few that we lost everything, but there certainly have been some of them.

Dan Penberthy: The lesson learned with SciAps was that, and this was as Pete mentioned, a management team, same management team, that I think we made \$7 million with, right? So, after the non-compete was up, they came back to us and said, "I think I can do it better and do it again." So, they had the pedigree coming in, they had the same team, not the same instrument, but not too far off, right, to avoid any non-compete problems. So they came through with a lofty valuation, and we gave them a little more leeway than we probably would otherwise to any entrepreneur that came in off the street, and as you can see in the portfolio summary, we had \$1.5 million invested into that Series A investment. So, probably lesson learned from this one is, we stepped in too quick, too fast with a little too much money, we should have stepped in a little slower, but there were reasons why it made sense for this investment. Like all our portfolio companies, believe it or not, it took longer and was a little bit harder and took more money. That's the common theme. So now I think we are being more cautious whether it's an experienced management team or not as evidenced by Centivo, where we stepped in with \$100,000 and \$200,000 investments to the same management team coming back with a similar business thesis, and we're taking a slower approach at this. Watching them hit some milestones both technical and business, and then we'll continue to invest as evidenced by SciAps where we continue to invest in the B, C, C1, and D, each time they hit another critical milestone.

Brett David: Got it. So, maybe so my hang up then is with the valuation. Is that GAAP dictated or is it some proprietary formula? Does it vary by company? Is it standardized across everybody?

Pete Grum: It's GAAP, there are different methodologies that we can use. I think we actually disclose what the different methodologies are.

Dan Penberthy: In the footnotes to the financials, there's a chart which lays it out. Some of them you can multiply. You can use an EBITDA multiple, which references Sam's direct comment earlier regarding Carolina Skiff, and I believe the footnote calls, I'm just looking it up, but I think it calls for an average EBITDA multiple. I think we have, 5.5 is the number, and there



are revenue multiples. So, your market approach EBITDA multiple, we have a range of values of 4x to 9x of EBITDA with a weighted average of 5.7x. Some of our debt instruments, we use a liquidations scenario, which is generally a 1x. So, those would be our debt instruments where we believe they're fully collectible. Other companies, we use a revenue multiple, and our weighted average revenue multiple is 2x with a range of 0.5x to 6.2x.

Those are all disclosed in the footnotes to the financials. So, we take a hard look at each portfolio company and determine the metric that's appropriate, and then we run through the waterfall scenario based on those multiples, and ultimately that drives us back to the situation in SciAps where we look and say, 'Geez, maybe we've got some exposure.' If the company were to sell today, based on the revenue they have today at these multiples, we believe all these things will recover, and they will have significantly higher revenue when they ultimately sell. And so, we will have some pick up back into NAV once the companies begin to get market saturation, and drive sales and bottom line profitability.

Brett David: So, this is all crystal ball stuff based on what the most recent 90 days is like?

Dan Penberthy: Actually, it's a longer-term trend. They're more near term, and then, all that underlies them, that's all GAAP fair value accounting, right? ASCA 20 which may be even something else now. But the underlying theme is, as Pete mentioned, the SBA valuation policy that says, if you think there's a problem in the Company, you've got to take it right down. If you're thinking of raising money at a higher valuation, you can't do anything until it's done. If you're just writing checks with all your friends, the same people who are in the deal, you can't recognize it all. You've got to wait. You've got to wait to a true arms length third party transaction and I think that comes back to, we got some good solid conservative values on these companies and I think there's more good than bad. But we won't know until somebody writes us a check and buys one of these darn things.

Brett David: Yes. So, is there something then in the annual that details, and it may not pass the lawyers gaze, but is there something that details your current thoughts on these businesses as to whether they're tracking straight and true with your long-term picture when you first got into this? Or whether they've veered off and things look even better than you initially had expected when you made the initial investment? Or things might not turn out quite the way you initially saw?

Pete Grum: We don't have that in writing, but if you really live in Amherst, I'd be happy to buy you lunch.

Brett David: Well, maybe we could swap some ideas a couple times and weigh that out.

Dan Penberthy: I think the chart that's in our investor deck that lays out both the timeline of the companies and the revenue stage of the companies, that tells you a lot. Because we know that once companies start reaching about \$5 million in revenues, they've turned into a real company, right? They still got some work to do, they're expanding, and they will require more capital. But that means somebody out there in the market is buying their stuff, and if we can move into that next bucket, that \$15 million to \$20 million category, that's when you would believe that they start getting some attention in the market place, and somebody is going to want them. They don't always want them, but you would think that that's the point at which we can begin to sell these things. Now, tech companies can sell for stupid values on less revenues. We've sold some of those in the past. But really the companies here in the \$5 million and above bucket are



those that are really starting to get market attention and market traction, and that's really what we look at and push the companies to drive that top line.

Pete Grum: The other tallying that leaps to my mind is when they're able to raise money. That means someone has looked at them, and said, "Yes, I want to make an investment."

Brett David: Good. All right, well that was great. That helps me do things in a little better. That'll work out good now, I'll be in touch.

Pete Grum: We'll be happy to sit down with you.

Operator: Thank you. This concludes our question and answer session. I'd like to turn the floor back to management for closing comments.

Pete Grum: Thank you very much for your interest in Rand, were always available by phone and we look forward to sharing the results in another 90 days.

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