



Operator: Greetings! Welcome to the Rand Capital Corporation's Second 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. 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. Please go ahead.

Deborah Pawlowski: Thank you, Hector, and good afternoon, everyone. We appreciate your time today for Rand's second quarter 2019 financial results conference call.

On the line I have here Pete Grum, our Chief Executive Officer and Dan Penberthy, our Executive Vice President and Chief Financial Officer.

You should have a copy of the release that crossed the wire this morning as well as the slides that will accompany our conversation today. If not, they are available on our Web site at 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 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. You can find the 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 give a brief update on the status of the transactions with East Asset Management. Then, Dan will follow with more details regarding the financials. Pete?

Pete Grum: Good afternoon, everyone. Thank you for your time today.

We are happy to have this opportunity to update you on Rand's second quarter. Included in that is the progress we have made towards completion of the transaction with East Asset Management who I'll refer to as East going forward.

If you all turn to **Slide 3**, let me touch on some of the key developments during the second quarter. Most significantly, we have been working through the process for completing the \$25 million investment in Rand by East. The investment by East consists of cash and portfolio assets that will provide us with additional capital to grow our portfolio and increase the return for all the shareholders.

Portfolio assets that will be contributed by East will be immediately accretive to investment income. As I am sure you are aware, we received shareholder approval at the special shareholder meeting in May. We have been working on all the planning, diligence and approvals needed for closing and to be ready to operate with our new assets under our new structure.

Last month, importantly, the SEC deemed effective the registration of our new external management company, Rand Capital Management, as a registered investment adviser. This was an important step in this process. Another regulatory approval we have been seeking is from the U.S. Small Business Administration and we continue to make progress on a daily basis.

Subject to this SBA approval, we expect the transaction to close in the second half of this year and anticipate that the greater scale better positions us in the capital markets through the increase of shareholders' equity and total assets.



At the end of the second quarter, our net asset value, or NAV, decreased to \$4.85 per share, down from the \$5.06 per share at the end of March. The decline in NAV was mostly due to valuation changes we recorded on certain investments which amounted to \$0.19 per share.

We also incurred additional expenses associated with the East transaction and the related special shareholder meeting, but frankly these are mostly offset by higher investment income. Dan, during his discussion, will go over the financial results later in the presentation.

We only had one follow-on investment in the quarter which was the issuance of a promissory note for \$250,000 to Genicon. This brings the fair value of our investment with them to \$4.1 million, making this our second largest investment. Based in Winter Park, Florida near Orlando, Genicon is an industry leader in patented surgical instrumentation focused exclusively on laparoscopic surgery.

Slide 4 is a snapshot of the top five investments in our portfolio based on their fair values at the end of June. Our total portfolio was valued at over \$31.2 million and includes 28 active companies. The value of our top five investments consistently comprises about half of our portfolio.

As I do each quarter, let's turn to **Slide 5** and I want to take the opportunity to feature some of the companies within our portfolio as a way to give you more insight to them. Let's start with Tilson Technology Management. We feature them quite regularly since we have been a consistent investor as they have grown and expanded.

As you likely know, they are headquartered in Portland, Maine and have offices throughout the U.S. They provide network deployment, construction and information system services management for cellular, fiber optic and wireless systems providers.

The company reported that its CEO, Josh Broder, testified before the U.S. House of Representatives Workforce Subcommittee on the importance of training and apprenticeship programs to meet current and future hiring needs as the industry moves towards 5G and the next-generation technologies.

The hearing, entitled, *Mind the Skills Gap: Apprenticeships and Training Programs*, focused on new ways that private industry and the government can partner together to meet ever-growing workforce demands as businesses grow and compete. Tilson is currently hiring an average of 35 new team members per month across its 23 offices to support its continued growth of nationwide network infrastructure design-build services.

As one of the first companies in the U.S. to participate in the Telecommunications Industry Registered Apprenticeship Program, or TIRAP, a program supporting career development of the telecommunications workforce, Tilson currently has almost 80 Tower Climbing Technicians I/II, Antenna and Line Lead and Foremen registered in the program.

As you can see on the left side, as of June 30, Tilson was Rand's highest valued investment, at approximately \$5 million.

If you can please turn to **Slide 6**, let me tell you a little about OutMatch, which is based in Dallas, Texas. They are a leader in developing web-based predictive employee selections and reference checking that empowers companies to make the best decisions about their people, from hiring and development to leadership and culture.

OutMatch recently announced that they joined forces with The Devine Group to become one company under the name OutMatch. This deal brought together two exceptional companies, client bases, and product offerings to further strengthen OutMatch as the clear leader in predictive talent analytics.

The combination drives innovation for clients of both OutMatch and The Devine Group. All clients have the opportunity to access the scalable, integrated OutMatch platform including pre-hire assessments and



employee development, as well as culture analytics and video interviewing from OutMatch's recent acquisitions of Pomello and Wepow.

The addition of the video interviewing technology provided by Wepow earlier this year further intensified OutMatch's performance of predictive talent solutions. At June 30, Rand's investment in OutMatch was valued at approximately \$2.1 million.

Slide 7 highlights SciAps, a company headquartered in Woburn, Mass, a design and manufacturer of durable, field-tested portable analytical instruments which identify virtually any compound, mineral, or element.

Founded in 2013 by industry experts, the company's revenue continues to double every year. They also continue to innovate core handheld technologies for in-field measurement of elements, chemicals and minerals.

For example, the company makes a highly disruptive handheld LIBS analyzer, which refers to laser induced breakdown spectroscopy. It's the world's only handheld analyzer capable of measuring carbon content in stainless steel, and carbon content in carbon equivalents.

It has replaced a much larger, heavier technology in the industry serving pipelines and refining, as well as the steel manufacturing and fabrication industries across multiple sectors.

The flagship LIBS analyzer also analyzes carbon and other elements in geochemical and agricultural samples and is the only handheld capable of infield lithium measurements for mineral exploration serving the world's increasing demand for lithium batteries.

SciAps's latest offering, a handheld Raman technology, is complementary to LIBS, providing chemical and mineral identification capabilities and allowing the company to enter the billion global safety and security market segments.

At June 30, 2019, our investment in SciAps was valued at approximately \$1.6 million.

If you can please turn to **Slide 8**, this provides the industry mix of our diverse portfolio. Year-over-year comparisons as of June 30 show an increase in professional services and software. This was driven by the increased valuation of Tilson and the addition of Tech 2000 to our portfolio.

Slide 9 depicts our mix of investments in equity and debt. The debt instruments provide the needed cash flow to fund operations, while equity provides future upside potential.

Looking forward, anticipating the proposed East investment in Rand, we anticipate a heavier focus on debt-related investments to support our planned ongoing dividend.

Next, 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**, and I'll start with the net asset value per share, or NAV. As Pete mentioned, we finished the quarter with net asset value at \$4.85 per share. As you can see on the chart, NAV decreased \$0.21 per share over the trailing quarter. This decrease was impacted by three 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 based on the operating performance trends of the particular portfolio of companies or capital transactions that they may have been involved with. During the quarter, we've recognized net reductions in fair value amounting to about \$0.19 per share.

The next factor pertains to the fact that higher expenses, primarily associated with the East transaction and the related special shareholder meeting, had about \$0.03 per share impact.



Finally, on the positive side, our total investment income was higher than last year having a favorable impact of about \$0.02 per share.

On **Slide 12** is a summary of our operating performance for the second quarters of 2019 and 2018 and also the first half of both years. 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 as well as realized some non-recurring income.

Our second quarter investment income of \$583,000 is up 41% over last year and included a \$194,000 non-recurring dividend. On a year-to-date basis, investment income is up \$526,000, or 68%, which also includes \$225,000 of non-recurring fee income that was received during the first quarter.

Our second quarter expenses of \$824,000 are up \$350,000 over the same quarter of the prior year. About \$329,000 of the increase was due to higher professional services and shareholder expenses directly related to the East transaction and the special shareholder meeting. Interest expense was also higher this year over last, up about \$33,000 due to our higher outstanding SBA debt level.

As I mentioned in the last slide, we recorded realized and unrealized losses on certain investments and these were done in accordance with our valuation policies. These included Social Flow, Genicon and BeetNPath.

The net impact was about \$610,000 more in the 2019 second quarter than the same period of the last year, but \$169,000 less in the first half of 2019 than the first half of last year.

To summarize, the 2019 second quarter resulted in a decrease in net assets from operations of \$0.21 per share compared to \$0.10 per share decrease in the 2018 second quarter.

As you can see on **Slide 13**, we continue to have a solid balance sheet. It's important to note that of our total cash, \$1.4 million is available for corporate use while \$7.2 million is in our SBIC for future investments.

Our portfolio investments are valued at \$4.94 per share at the end of the second quarter and we have \$1.74 per share that we owe to the SBA, which is consistent with the end of last quarter. We also have \$0.29 per share of other assets, net of liabilities. This comprises our NAV per share of \$4.85.

So with that Pete, shall we open up the line for questions?

Pete Grum: I think we should.

Operator: Thank you. We'll now be conducting a question-and-answer session. If you should 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 key. One moment please while we poll for questions.

Our first question comes from the line of Sam Robotsky with SER Asset Management. Please proceed with your question.

Sam Robotsky: Good afternoon, Dan and Pete. How much more expenses do we have to pay for the transaction? What is the balance, and as far as the dividend, which month do we expect to pay the dividend?

Pete Grum: Let me take it in two pieces. As far as expenses, I believe substantially all of the transaction expenses we've incurred and paid. We do have a payment to KBW as disclosed in our proxy that, when the transaction goes through, we owe them, I believe, \$300,000. We paid \$200,000 and we have \$300,000 left, I believe. So other than that, substantially all the expenses that we're going to incur have gone through that I am aware of.

Your second one is when is the dividend going to be declared and paid. A lot of that is time dependent on when we get the deal approved and closed. I would like to see it close at the end of September. The Board



can then, and it's a Board decision, not a management decision, the Board can then look at the timing of the dividend. To qualify for RIC status, we have to distribute out a certain amount of retained earnings, in layman's terms. That's approximately \$22 million. Whether that's the next month or, my guess would be it's fairly soon after the closing, but it may go into early next year.

Sam Robotsky: Okay. Thank you. Now as far as the price of the stock and the dividend paid at \$1.50, do you expect to reverse split the stock as the dividend should reduce the price of stock? And with the new shareholder, the book value being maybe \$3.60 or some number like that, do we expect to do a reverse split?

Pete Grum: As you know, if we expected it and could announce it, we would. We're not going to announce it, but we certainly know that that is sometimes common in these types of transactions.

Sam Robotsky: But would you—my presumption is that you wouldn't want your stock to trade, for example, at too low a level. Currently it's about \$2.50 to \$2.60. With a buck and a half dividend that might take it down to a buck. Presumably you wouldn't want the stock to trade at that level. Is that a fair assumption?

Pete Grum: I understand the concept, but at this point we're not at a liberty to discuss that.

Sam Robotsky: Okay. Thank you.

Pete Grum: Thanks, Sam. Good talking with you.

Operator: As a reminder if you should like to ask a question, please press star, one on your telephone keypad. One moment please as we poll for questions.

Ladies and gentlemen, we have reached the end of the question-and-answer session. I would like to turn the call back to management for closing remarks.

Pete Grum: Again, we're excited about what the next couple of months are going to bring because I do believe the transaction with East, which I think will be great for the Company, it's nearing its final phases. We look forward to finishing that and then the new Rand will be up and running and providing dividends and we're excited about the future. We appreciate your support during this period and continue to take calls from you if you have any questions or concerns.

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