



Operator: Greetings and welcome to the Rand Capital Corporation Second Quarter 2018 Financial Results teleconference. 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.

It is now my pleasure to turn the conference over to your host Deborah Pawlowski, Investor Relations. Thank you, you may begin.

Deborah Pawlowski: Thanks, Rob, and good afternoon everyone. We certainly appreciate your time today and your interest in Rand Capital. Joining me on the call 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 this morning in the news release and, if you don't have that release and the slides that will also accompany today's discussions, they can be found on our website at www.randcapital.com.

So, if you're looking at that slide deck and turn to Slide 2, I will review our Safe Harbor Statement. As you're likely aware, we may make some forward-looking statements during this presentation as well as 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 materially 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 these documents either on our website or at www.sec.gov.

With that, let me turn it over to Pete to begin his discussion. Pete?

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

I am going to start with Slide 3. At the end of our quarter, our net asset value, or as we call it the NAV, was \$4.87 per share, down from \$4.97 at the end of Q1 2018. From an operating standpoint, our net investment income nearly covered all of our expenses, only short by \$0.01 per share. Most of the decline in the NAV was due to unrealized losses recorded on certain investments, which amounted to \$0.09 per share. This was from our normal quarterly review we performed based on the operating performance of certain companies.

During the second quarter we invested \$775,000 on one of our existing portfolio companies, KnowledgeVision. These debt instruments will be used to support KnowledgeVision's progression of its smart media technology. Our initial investment in KnowledgeVision was back in 2013 and, since then, they have increased their registered user base tenfold.

As you know, if you've been listening to us over the past couple of years, we have been focused on building our investment income; that resulted in an 18% increase in investment income over the prior-year quarter and a 15% increase over the first half of last year. Dan, when he goes through the financial results later in the discussion, can highlight some.

Finally, I'm pleased that we received word from the SBA that our application for \$6 million of additional leverage has been verbally approved by the SBA credit committee. This has been a long process and we look forward to finalizing it.

If you now turn to Slide 4, as I do each quarter, I want to take the opportunity to feature some of the companies within our portfolio as a way to give you more insight into them. Since we invested in them this quarter, I'll start with KnowledgeVision. Based in Lincoln, Massachusetts,



near Boston, KnowledgeVision Systems is the leader in providing smart media creation and hosting technology. More than 300,000 people around the globe utilize their Knovio video platform, representing more than 2,000 companies. They utilize this platform to create, host, share, organize, collaborate around and measure online media content. Recently, the company won its second U.S. patent for its video technology. They also recently launched a groundbreaking live multimedia webcasting product called Knovio Live.

The next company I'd like to talk about is Centivo, which is headquartered in New York City. They provide access to high quality healthcare for employers and employees at a sustainable cost benefit to both. Centivo targets to lower the healthcare cost trend by providing a solution whereby employers no longer have to apologize for raising the cost and cutting their benefits.

Centivo serves as a health plan or a third-party administrator for employers and they partner closely with local health plans to enhance their offerings. Because of this, they are able to provide this type of high quality healthcare at a sustainable cost through their business model, which enhances healthcare purchasing and delivery.

First, they act as an innovative primary care center network focusing on outcomes. Secondly, they have a dynamic benefit design that rewards members for high value care and adherence. Lastly, they have a state-of-the-art digital technology platform and concierge service support that enables optimal care and an exceptional experience. They recently raised \$34 million of Series A funding, in which we invested \$200,000 and converted a \$100,000 convertible note during the first quarter. They intend to use this capital to help build their technology and infrastructure, develop local partnerships and support market launch of their solution.

Next is Rheonix, which we've talked about before, which is based in Ithaca, New York. They are a developer of fully automatic sample-to-answer molecular testing solutions for use in a variety of innovative applications in different industries. They recently announced two innovative products to use on their Encompass Optimum Workstation.

First, they expanded their Beer SpoilerAlert assay, which detects organisms that may cause spoilage to beer. The innovation resulted in Rheonix becoming the provider of the simplest and most comprehensive beer spoilers test in the market.

Secondly, they launched their Listeria PatternAlert assay, a breakthrough method for rapidly identifying molecular patterns from *Listeria* strains. This allows the food industry to take rapid action to reduce the possibility of contamination or recall.

In addition to these two developments coming to market, they've initiated clinical studies to gain FDA clearance for their Encompass MDx Workstation and the Rheonix STI Tri-Plex assay for the simultaneous detection of three sexually transmitted infections. So, they are really developing some of the most interesting and broad testing solutions.

We can now go to Slide 5. It shows the logo of all of the 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 featured, you can see that Centivo is within the start-up category and KnowledgeVision and Rheonix are both in the initial revenue stage. As I mentioned before, companies progress to the right, and they may start to develop exit plans from our portfolio. It's virtually impossible to predict how quickly or slowly these transactions take as they are all dependent on market conditions.

We added Slide 6 for your edification in the last quarter. We believe this is an interesting perspective on our portfolio companies; one based on our investment period. Centivo has



lapsed a year and we haven't added any new companies to our portfolio since then. The average age of a company currently in our portfolio is just under five years and our normal investment period is slightly over five years. As you can see, the majority of our companies sit at or above the five-year time horizon. Today, 18 companies are there.

So if we can now turn to Slide 7, which shows the diversity of our portfolio and our breakdown by industry category. This typically doesn't change 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 June 30, show a slight increase in the professional services and software industries, and a slight decrease in healthcare.

You can all turn to Slide 8. If we dissect our portfolio into capital characteristics, with debt and equity being the two major choices, our strategy has always been on capital appreciation to grow our net asset value. Accordingly, our portfolio is quite heavily weighted towards equity as opposed to debt instruments. However, we may adjust our investment objectives, depending on the mix of cash flow streams within our portfolio. As the slide illustrates, since 2015 we have trended to more debt. We've focused on building investment income to generate cash flow to cover our expenses. Consequently at the end of this quarter, June 30, nearly 60% of our investments were in equity and about 40% were in debt, unchanged from the end of 2017.

We now go to Slide 9, the snapshot of our Top 5 investments in our portfolio, based on values at the end of June. Our portfolio was valued at over \$32 million and includes 30 active companies. The value of our Top 5 investments consistently comprises about half of our portfolio, and then, as you can see, they are weighted towards health care. Since these five are unchanged from the last quarter, I won't go into the detail again, but I'll give you a quick summary.

Our top investment was with Genicon. Based in Orlando, Florida, they design, produce and distribute, patented surgical instrumentation. We've been investing with them since 2015.

Second is eHealth, based in Rochester, New York. They have a proprietary electronic platform that aggregates patient clinical records and images to support medical referral. We've been investing with them since 2016.

Rheonix follows next, which I described a few minutes ago. We've been partnering with them since 2009.

Fourth is Tilson, out of Portland Maine. They construct, deploy and manage cellular fiber optic and wireless information systems. We've been investing in them since 2015.

Last is OutMatch. They are in the business of helping companies be more productive, and providing tools to facilitate hiring the right people for the right 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.

Daniel Penberthy: Thanks, Pete, and good afternoon everyone. If you would please turn to Slide 11, I'll start with the net asset value per share, or NAV. As Pete mentioned, we finished the quarter with net asset value at \$4.87 per share. As you can see on the chart, NAV declined \$0.10 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. That 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 recognized unrealized depreciation in fair value amounting to about \$0.09 per share.

The second factor pertains to the fact that our expenses modestly exceeded our investment income this quarter. This impact was about \$0.01 per share.

Please turn to Slide 12. Here, I summarized our operating performance for the second quarters of 2018 and 2017, and also the first half of both periods. I'll take you through the key line items that are noted here on the schedule.

As we've previously mentioned, we have been investing in more income-producing instruments over the past few years. This has increased our investment income. You can see the results. Our second quarter investment income of \$413,000 is up 18% over last year. On a year-to-date basis, investment income is up \$98,000, or 14%.

Our second quarter expenses of \$474,000 are 22% below the same quarter of the prior year. The decrease in expenses was due to lower professional services, partially offset by bad debt expense. For the year, expenses are down \$62,000, or 6%.

As I mentioned in the last slide, we have recorded unrealized losses on certain investments in accordance with our valuation policy. This included Empire Genomics and SOMS, net of an unrealized gain we recorded on GiveGab. The net impact was about \$117,000 more in the 2018 second quarter than the same period of last year, and \$220,000 more in the first half of 2018 than the first half of the prior year. There were no portfolio exits this quarter.

To summarize, the 2018 second quarter resulted in a decrease in net assets from operations of \$0.10 per share, which was the equivalent decrease in the 2017 second quarter.

Now please turn to Slide 13. Our balance sheet continues to remain strong. On a per share basis, we have \$0.75 of cash at the end of the quarter. This includes \$0.43 per share which resides at the corporate or parent level, and \$0.32 per share in our SBIC, which is available for investing. Our portfolio investments are valued at \$5.11 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 the end of the quarter. We also have \$0.28 per share of other assets, net of liabilities. This all adds up to our net asset value, or NAV, per share of \$4.87.

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

Pete Grum: Thanks, Dan. If you could 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're also focused on structuring our investments to deliver sufficient cash flow to cover our ongoing operating and financing expenses. And now, we hope to be able to put an additional \$6 million leverage from the SBA to work.

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

Before we open the lines for questions, I want to say I hope you can see there is a lot of excitement going on with RAND and lot of underlying value in our portfolio of companies. We, as a management team, are working hard to take the company to the next level by driving our growth strategy.

With that, we'll open it up for questions.



Operator: Thank you. At this time, we will 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 the question queue. You may press star, two if you'd 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.

Our first question comes from Thomas Byrnes, a private investor. Please proceed with your question.

Thomas Byrnes: Yes, I'd like to ask Pete, in light of the fact that the last five years the way I look at the 10-K, the two top officers have taken out millions of dollars in compensation between bonuses and salary, and the shareholders who actually own the company haven't received anything. In fact, I don't know if you looked at it, but the share price today is \$2.38, which is just about half of what you're purporting your net assets to be. Given the market is, in my opinion, showing a big no confidence in management, have you considered either liquidating the company or doing a large stock buyback to finally give long-suffering shareholders some relief, other than just earning enough interest income, which you seem to be touting, to cover expenses?

Pete Grum: Let me take that in pieces. I think it was two years ago at our annual meeting - and you can see it online or I'd be happy to send it to you and discuss it - we looked at everything from liquidating the company to going dark to merging the company with another thing to becoming a traditional BDC and the alternatives needed to make those happen, the cash needed to make those happen. At the time, the thing that we could control was to continue to grow the company using the SBA as our partner.

It was our analysis and the Board's analysis, at the time, that liquidating the company did not make any sense, but the Board continues to look at alternatives. We have had discussions throughout the year regarding other ways to run the company, but have not found those that we could execute as a Board. We will continue to look for any other alternatives that we can control, while growing the company through the SBA. If you follow, and you sound like you do follow, the industry, you will see that with all of the BDCs, and specifically the smaller ones, the stock price has not been a good place to be. I'm sure, because you've read our K's and Q's over time, you also know that both Dan and I have taken the bonuses that you've referred to, and have used them to buy stock, as substantial parts of our net worth are in the stock of the company, so we're very aware of what's happened to the price of the stock.

Thomas Byrnes: I appreciate that answer, but I still don't understand quite honestly. I am familiar with the whole industry and the fact that many of the BDCs sell at discounts. They are more normally in the 15% to 20% range, not 50%. In other words, if I have \$1 million to invest and I can either invest or loan it to somebody at 8% with maybe some warrants or I can buy my own stock back at \$0.50 on the \$1, to me, it's a no-brainer.

I still don't understand management's reticence, other than it would mean that the Company would temporarily decrease in value and the management fee seems to be based upon the size of the company. I suspect, and obviously I'd like to hear your answer, that one of the reasons that the Company seems to be growing by this Small Business Administration is to generate more fee income rather than really generating returns to shareholders and maximizing shareholder value. Just my thoughts.



Pete Grum: I appreciate your thoughts, and I'd be happy to take it offline with you if you'd like. There are really no management fees as you refer to it, or maybe I misunderstood what your point was. There are no management fees.

Thomas Byrnes: So management would get paid the same whether the company was half the size or double the size?

Pete Grum: Exactly, yes.

Thomas Byrnes: I apologize.

Pete Grum: In our business, we are what is referred to as internally managed. Most of the other BDCs are what are called externally managed, and they do have a fee that is based on the size of the company.

Thomas Byrnes: Okay, thank you very much for your answer.

Pete Grum: Thank you.

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

Our next question is from Brett Reiss with Janney Montgomery Scott. Please proceed with your question.

Brett Reiss: Hi, and if this was asked and answered, I apologize as I had to hop-off briefly. Pete, you mentioned in your prepared remarks that you're going to be open to opportunistically sharing capital with shareholders. Can you give us a little bit more color on what you have in mind and what milestones or triggers would we have to see to see some of that stuff happen?

Pete Grum: If you mean by that, buying back shares, we have done that opportunistically in the past at a point of about 0.5 million shares over the years. We have done that in situations where we have cash flow from operations exceeding expenses and I think the Board would use that as a trigger again.

Brett Reiss: Okay. Now, I'd say about two years ago you had monetized one of your major investments as a percentage of the net worth of the company that came in and, at that time, you did not dividend out or do something with shareholders. What prevented you at that time and, if something like that happens in the future, would that be different going forward?

Pete Grum: The transaction you are talking about, I believe, was Gemcor, which we did monetize, but it really didn't change NAV, because it went from an unrealized to a realized gain and we did not pay a dividend. Frankly, I struggle with whether a dividend makes any sense. It's not beneficial to us on a tax basis and, frankly, the problem that we have is always that we are too small to shrink the company. It's something that the Board has decided not to do and I'm not sure when they would do it. We do hear from you and we hear from some other people that they would like a dividend. Because of our structure, kind of an atypical BDC, we are a tax-paying vehicle, and so, paying out a dividend has no tax advantage and, frankly, we'd end up with a smaller company with the same products.

The Board, when we discussed it and we do discuss it in every meeting, has not adopted that strategy.

Brett Reiss: Right. You have a new large deep-pocketed sophisticated shareholder, what do you think brings them to the table? What are they seeing here that the market is not seeing?



Pete Grum: You can call them and ask them yourself. We have met with them as we will meet with all shareholders and talk to them and talk through the portfolio, show them the information that is publically available and how we view them and we will see where it goes from there. We have a very nice and cordial relationship with them ongoing. I think I would rather have them explain what they saw in the company rather than me put words into their mouth.

Brett Reiss: Well I hope, if I call them, they will take my call.

Pete Grum: Okay. It would surprise me if they weren't on this call, because they have been on previous ones.

Brett Reiss: Right, right. All right. Thank you. Enjoy the rest of the summer.

Pete Grum: Thank you, Brett.

Operator: Our next question is from Norman Kadehjian, a private investor. Please proceed with your question.

Norman Kadehjian: Hi, Pete and Dan. We have received verbal OKs from the SBA credit committee. When will the cash actually arrive or do you have a guess?

Pete Grum: They are under a new process; it's not a process we have gone through before. What I believe will happen is, in the next couple of weeks, we will receive a letter to that effect. And then, historically, you then pay a fee to in essence reserve that \$6 million. And then, you take it down over time as you have deals that match up. So, it's not a one-shot deal. There is a reserve part. I believe you pay 1% upfront and then you take it down over time to fund deals.

Norman Kadehjian: Congratulations. Looking at your portfolio companies, Genicon, e-Health and OutMatch are three of your larger holdings. Will any of those three companies move into the high traction stage next year, if you had to guess?

Pete Grum: Dan is more involved, but I believe eHealth probably has the highest revenue. I will let Dan answer that if you're able to do it off the cuff, Dan?

Daniel Penberthy: Yes, I guess I'm not prepared to answer that, given confidentiality issues, but each one of those companies is beginning to make deeper penetrations into their respective fields of expertise or business segments, and we certainly remain optimistic that their revenue trends will continue. So, I think that those companies have as high a potential as any of the other ones in our portfolio to continue their growth trajectory. That's a generic enough and safe enough answer.

Norman Kadehjian: Okay. One another remark, I think it was Bill Nicklin, whether it was the last call or a couple of calls before, talked about penny stocks and stocks trading at \$5 a share. I guess until it really affected me, I didn't pay it enough attention, because this week I got a letter from Merrill Lynch saying that they have a new policy on low priced, over the counter stocks, specifically stocks trading below \$5 per share. In most cases, they will not allow customers or clients to purchase stocks that are in that \$5 or below category. I know UBS actually put in that same type of rule, although I'm not sure if it's exactly the same, within the last month or two, so I would like the Company to be aware that the brokerage community looks like it's toughening up on over-the-counter stocks, especially those trading under \$5 per share, which prevents me from using my Merrill Lynch account to buy any more RAND shares at these wondrously low prices. So, that's something that you might, once again, not be aware of. Thank you so much.

Pete Grum: Thank you. We actually did follow-up with Bill after the last call and, from the work we did and our talk with Bill, RAND was not covered, because it is traded on Nasdaq, as



opposed to over-the-counter. That may be just a Merrill Lynch thing, but there is definitely a trend either to indexing or a variety of other things that is not helpful for smaller cap stocks.

Operator: Ladies and gentlemen, we have reached the end of the question and answer session. At this time, I would like to turn the call back to Pete Grum for closing comments.

Pete Grum: Thank you. As I've said before and I've spoken with some of you in between calls, we are always willing to learn about your concerns and, if we can enlighten you about what we are doing up here, feel free to call in between. We look forward to talking with you in another quarter.

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