



# Strategic Update for Rand Capital Shareholders

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Allen F. "Pete" Grum, *President & CEO*  
Daniel P. Penberthy, *Executive Vice President & CFO*

# Important Information



## Cautionary Statement Regarding Forward-Looking Statements

This presentation contains “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements, other than historical facts, including but not limited to statements regarding the expected timing of the closing of the proposed transactions; the ability of the parties to complete the proposed transactions considering the various closing conditions, including receipt of necessary shareholder approvals and approval from the U.S. Small Business Administration (SBA); the intention of Rand Capital Corporation (“Rand Capital”, “Rand” or the “Company”) to elect to be become a regulated investment company for U.S. federal tax purposes; the intention to declare and pay a special cash and stock dividend upon the closing of the proposed transactions; the intention to pay a regular cash dividend after the completion of the proposed transactions; the expected benefits of the proposed transactions such as a lower expense-to-asset ratio for Rand Capital, increased net investment income, availability of additional resources, expanded access to and sourcing platform for new investments and streamlining of operations under the external management structure; the business strategy of originating additional income producing investments; the competitive ability and position of Rand Capital following completion of the proposed transactions; and any assumptions underlying any of the foregoing, are forward-looking statements. Forward-looking statements concern future circumstances and results and other statements that are not historical facts and are sometimes identified by the words “may,” “will,” “should,” “potential,” “intend,” “expect,” “endeavor,” “seek,” “anticipate,” “estimate,” “overestimate,” “underestimate,” “believe,” “could,” “project,” “predict,” “continue,” “target” or other similar words or expressions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove to be incorrect, actual results may vary materially from those indicated or anticipated by such forward-looking statements. The inclusion of such statements should not be regarded as a representation that such plans, estimates or expectations will be achieved. Important factors that could cause actual results to differ materially from such plans, estimates or expectations include, among others, (1) that one or more closing conditions to the stock purchase may not be satisfied or waived, on a timely basis or otherwise, including that the SBA may not approve the proposed transactions or that the required approvals by the shareholders of Rand Capital may not be obtained; (2) the risk that the proposed transactions may not be completed in the time frame expected by parties, or at all; (3) the risk that Rand Capital may be unable to fulfill the conditions required in order to elect to be treated as a regulated investment company for U.S. tax purposes; (4) uncertainty of the expected financial performance of Rand Capital following completion of the proposed transactions; (5) failure to realize the anticipated benefits of the proposed transactions, including as a result of delay in completing the proposed transactions; (6) the risk that Rand Capital is unable to declare the special cash and stock dividend or pay quarterly dividends on a going forward basis; (7) the occurrence of any event that could give rise to termination of the stock purchase agreement; (8) the risk that shareholder litigation in connection with the proposed transactions may affect the timing or occurrence of the contemplated transactions or result in significant costs of defense, indemnification and liability; (9) evolving legal, regulatory and tax regimes; (10) changes in general economic and/or industry specific conditions; and (11) other risk factors as detailed from time to time in Rand Capital’s reports filed with the Securities and Exchange Commission (“SEC”), including Rand Capital’s annual report on Form 10-K for the year ended December 31, 2017, quarterly reports on Form 10-Q, current reports on Form 8-K and other documents filed with the SEC. Consequently, such forward-looking statements should be regarded as Rand Capital’s current plans, estimates and beliefs. Except as required by applicable law, Rand Capital assumes no obligation to update the forward-looking information contained in this presentation.

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## Additional Information and Where to Find It

This communication may be deemed to be solicitation material in respect of solicitation of proxies from shareholders of Rand Capital common stock in respect of the proposed transactions. In connection with these transactions, Rand Capital intends to file a proxy statement in preliminary and definitive form with the SEC that will contain important information about the proposed transactions and related matters, and deliver a copy of the proxy statement to its shareholders. INVESTORS OF RAND CAPITAL ARE URGED TO READ THE DEFINITIVE PROXY STATEMENT AND OTHER RELEVANT DOCUMENTS CAREFULLY AND IN THEIR ENTIRETY WHEN THEY BECOME AVAILABLE BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION ABOUT THE PROPOSED TRANSACTIONS AND RELATED MATTERS. Investors may obtain a free copy of these materials when they are available and other documents filed by Rand Capital with the SEC at the SEC’s website at [www.sec.gov](http://www.sec.gov) or at Rand Capital’s website at [www.randcapital.com](http://www.randcapital.com). Investors and security holders may also obtain free copies of the proxy statement and other documents filed with the SEC from Rand Capital by calling Investor Relations at 716-843-3908.

## Participants in the Solicitation

Rand Capital and its directors, executive officers, employees and other persons may be deemed to be participants in the solicitation of proxies from the stockholders of Rand Capital common stock in respect of the proposed stock purchase and externalization transactions. Information regarding Rand Capital’s directors and executive officers is available in its definitive proxy statement filed with the SEC on March 8, 2018, in connection with its 2018 annual meeting of shareholders. Other information regarding persons who may be deemed participants in the proxy solicitation and a description of their direct and indirect interests, by security holdings or otherwise, will be contained in the proxy statement and other relevant materials to be filed with the SEC when they become available.

# Summary of Key Transactions Terms



## Strategic Investment

- East Asset Management, LLC (“EAM” or “East”) to strategically invest \$25 million in Rand
- Consideration will include a combination of cash and yielding assets
- EAM receives approximately 8.3 million shares of Rand common stock
- Purchase price of \$3.00 per share, represents a 33% premium to closing price on 1/24/19

## Externalize Management

- Externalized management: establishment of Rand Capital Management, LLC (“RCM”)
- Expected to reduce expense-to-asset ratios for Rand
- Maintains continuity of leadership while expanding available investment resources

## Fee Structure

- Base management fee: 1.5% of gross assets
- Net investment income incentive fee: 20% above 7% hurdle rate (with full catch-up provision, subject to total return requirement)
- Net realized capital gains incentive fee: 20% of cumulative net capital gains

## Intention to Qualify For and Elect “RIC” status

- Proposed Regulated Investment Company (“RIC”) election eliminates corporate-level U.S. federal income tax on annual earnings timely distributed to shareholders
- Requires certain initial conditions: includes distribution of accumulated earnings & profits
- Supports establishment of regular dividend

## Shareholder Approval

- Stock sale and externalization each require shareholder approval
- Transaction also requires shareholder approval to increase authorized shares
- Special meeting of shareholders to be held

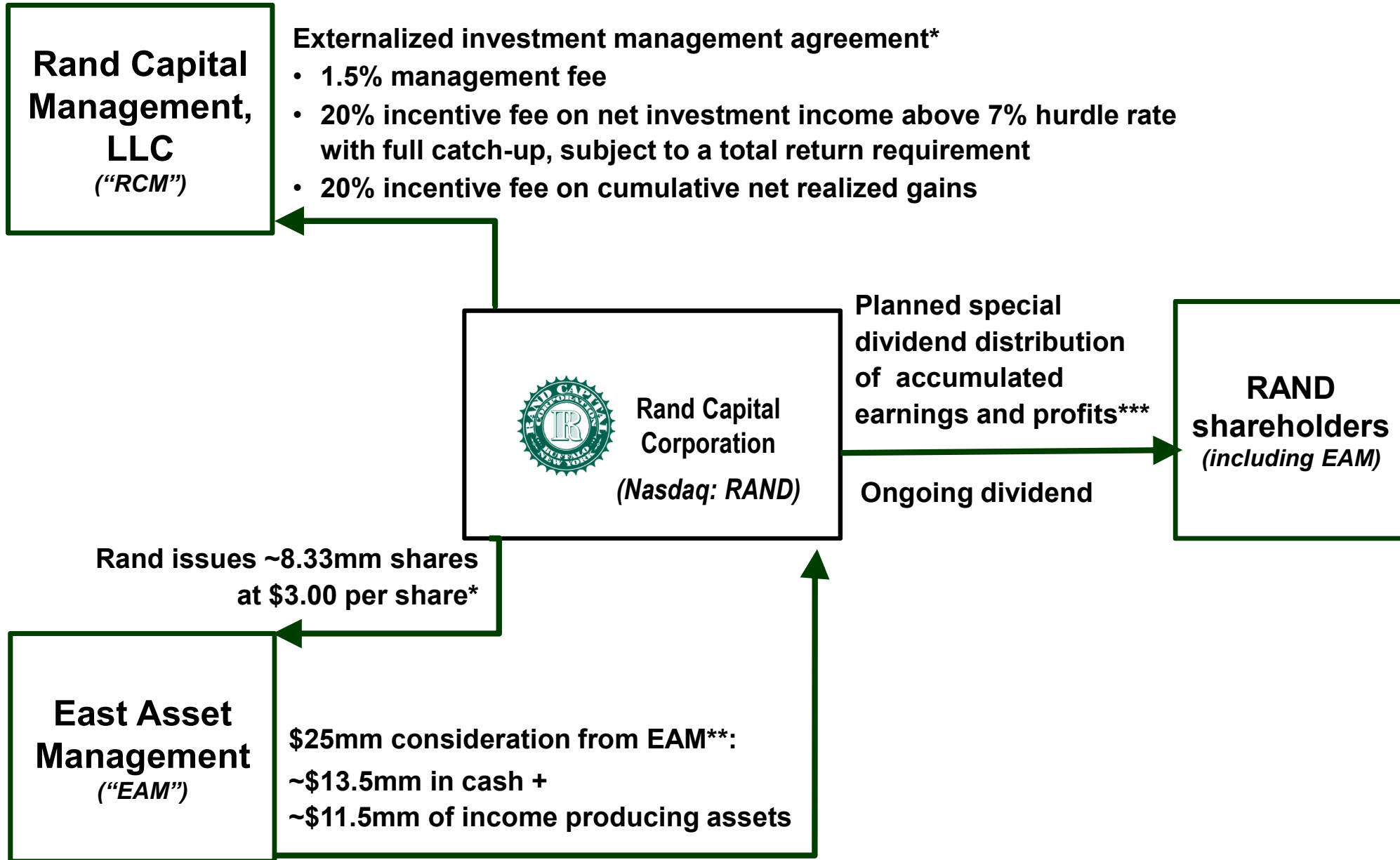
## Income Producing Assets

- New assets contributed by EAM immediately accretive to net investment income
- Focus on income producing investments to support cash dividend for shareholders

## Timeline

- The proposed transaction is expected to close during the third quarter of 2019, subject to various regulatory approvals and consents

# Shareholder-focused Transactions



\* Subject to shareholder approvals

\*\* Composition of cash and assets are subject to change at closing

\*\*\* Following close of transaction

# Long-term Value Proposition for Shareholders



<b>Lower Expense Ratio</b>	<ul style="list-style-type: none"> <li>• Combination of externalization and strategic investment expected to reduce expense-to-asset ratio</li> <li>• Externalization under new investment management agreement with 1.5% management fee on gross assets*</li> <li>• Establishes 7% hurdle rate with full catch-up for net investment income incentive fee</li> </ul>
<b>Special Dividend / Future Tax Benefits</b>	<ul style="list-style-type: none"> <li>• Proposed post closing: ~\$22 million special dividend, 20% cash and 80% stock**</li> <li>• Special dividend expected to be ~\$1.50/share for record shareholders</li> <li>• Enables Rand to qualify as a RIC for tax purposes, subject to ongoing distribution and diversification requirements</li> </ul>
<b>Ongoing Dividends</b>	<ul style="list-style-type: none"> <li>• Consistent with RIC status, Rand intends to initiate regular cash dividend policy</li> <li>• Targeting ongoing dividends of &gt;90% of investment company taxable income</li> </ul>
<b>Scale + Capital Markets Access</b>	<ul style="list-style-type: none"> <li>• \$25 million investment increases scale, enhancing resources and liquidity</li> <li>• Transactions should enable improved access to capital markets</li> </ul>
<b>Investment Expertise</b>	<ul style="list-style-type: none"> <li>• Continuity of existing management team with additional investment expertise and broader deal sourcing with RCM Investment Committee</li> </ul>
<b>Strategy for Growth</b>	<ul style="list-style-type: none"> <li>• Focus on income-producing assets with equity components for potential upside capital gain</li> <li>• Upsize to larger average investments</li> </ul>

\* Subject to shareholder approval

\*\* Special dividend amount and composition of cash and stock are subject to final review of required distribution for RIC status post-closing and the aggregate amount of cash and stock available for distribution, as well as the individual and collective elections by shareholders; assumes EAM elects and is paid in 100% Rand stock

## \$25 million Strategic Investment

- EAM purchases approximately 8.3 million common shares of Rand for \$25 million
- Investment will consist of approximately \$13.5 million of cash and \$11.5 million of contributed assets\*
- Contributed assets are expected to generate over \$1,000,000 in annualized investment income
- EAM may designate two nominees for election to Rand's Board of Directors

## Contributed Portfolio Attributes

- **Portfolio:** Six new portfolio companies from across Southeast USA
- **Industries:** Manufacturing, distribution, medical products, retail services, entertainment, self-storage
- **Investment Size:** \$1 million to \$3 million (\$1.9 million average)
- **Structure:** Senior subordinated debt
- **Yield:** approx. 12% current yield, plus 2% to 4% paid-in-kind interest (PIK)
- **Equity components:** Such as warrants, provide further upside potential
- **Maturity:** Mature from 2020 through 2023

## Strategic Impact

- Cash planned to be used by Rand to make special dividend post closing, enabling conversion to RIC status
- New tax status supports a go-forward dividend policy
  - Consistent with other publicly-traded BDCs which historically have had better valuation metrics
- Rand's future investment strategy to drive growth in net investment income
  - Strong current yields plus equity upside
  - Increased investment size on average

\* *Composition of cash and assets are subject to change at closing*

# One Time Special Distribution + Ongoing Dividend



## What is a RIC and how does it benefit the shareholder?

- A special type of “pass-through entity” that avoids typical double taxation on income at corporate and individual level on income and capital gains distributed to shareholders

## To qualify as a RIC and elect RIC status for tax purposes:

- Rand must distribute all of its accumulated excess earnings and profits of approximately \$22 million

## Post closing of the transaction, Rand intends to make a special dividend distribution to permit a RIC election\*

- Distribution currently estimated to be approximately \$22 million, or ~\$1.50 per share
- Shareholders will have the option to elect their preferred form of dividend (cash and/or stock), subject to an overall limitation on amount of cash available for distribution\*
- Total amount of cash available for the dividend distribution will be limited to 20% of the aggregate distribution: Individual cash dividends may be prorated based on the sum of the elections of all shareholders

## Following Rand achieving RIC status, the Board intends to distribute >90% of annual investment company taxable income through the initiation of regular cash dividends

**The intended special dividend following the transaction is a key requirement for Rand to elect RIC tax status**

*\* Special dividend amount and composition of cash and stock are subject to final review of required distribution for RIC status post-closing and the aggregate amount of cash and stock available for distribution, as well as the individual and collective elections by shareholders*

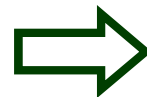
# Positioned for Growth



## *Focused on Shareholder Returns*

1

**Externalization expected to lower expense ratio and capitalizes on existing management and additional investment talent/knowledge**



Expected to improve investor returns and provide continuity of leadership with enhanced capabilities

2

**Achieving and maintaining RIC tax status**



Eliminates double taxation of income timely distributed to shareholders; enables ongoing dividend distributions

3

**Investment strategy will focus on current yielding assets with additional equity upside**



Supports improved consistency of investment income and ongoing cash dividend

4

**Expands access to broader network of investment opportunities**



Enhances shareholder return potential and facilitates portfolio growth

5

**Strategic Investment**



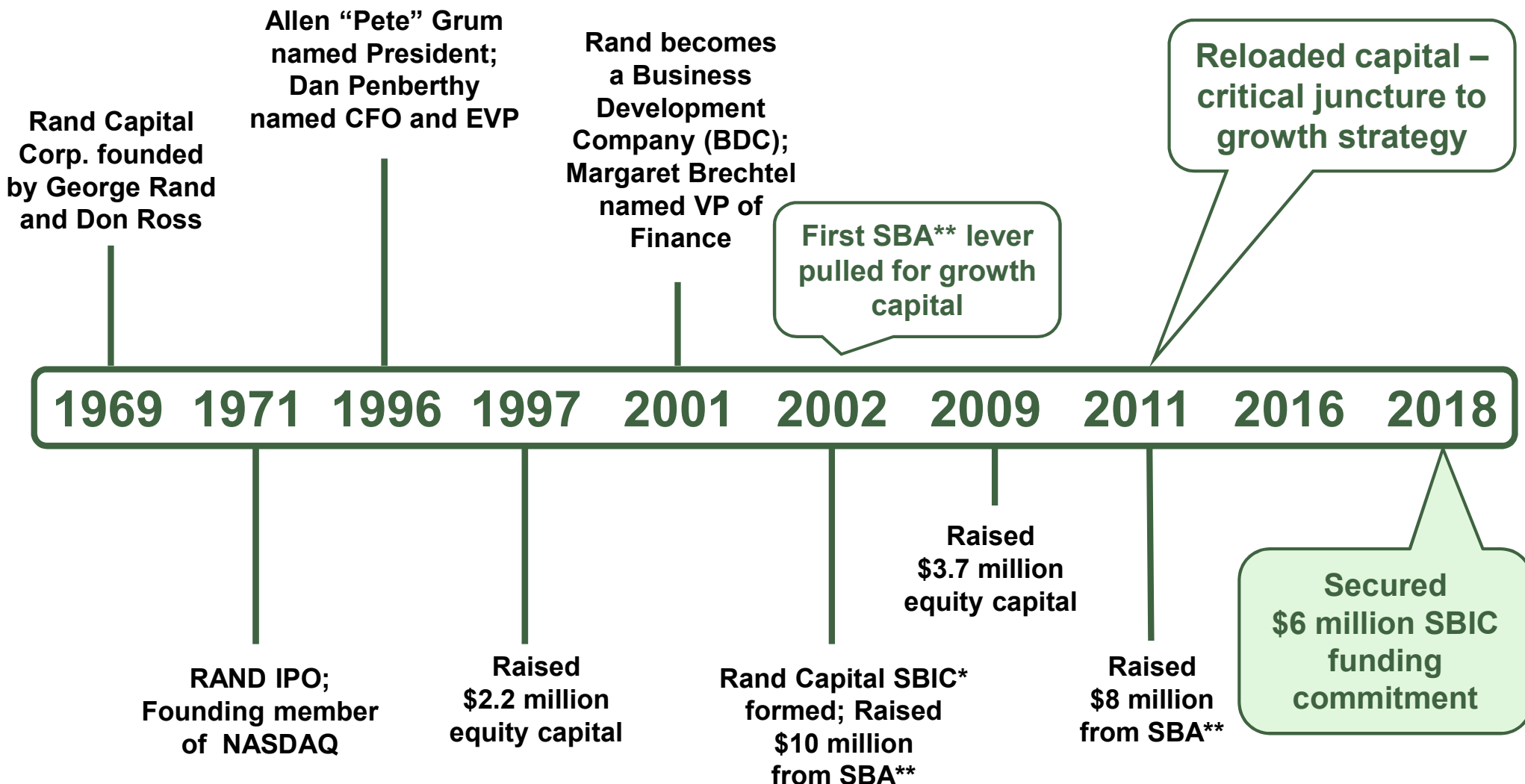
Increased liquidity, current portfolio yield and improved access to capital markets





# Supplemental Information

# History of Rand Capital Corporation



\* SBIC: Small Business Investment Company

\*\* SBA: U.S. Small Business Administration

# Experienced Management Team



## **Allen F. “Pete” Grum – President and Chief Executive Officer**

Mr. Grum is a seasoned financial services executive with over 20 years of experience with financial services organizations. Mr. Grum oversees the Company’s investment activities and takes an active role in the investment process from deal sourcing to fund marketing. He earned his Master of Business Administration from Rochester Institute of Technology and his Bachelor of Arts in Economics from Eisenhower College.



## **Daniel P. Penberthy – Chief Financial Officer and EVP**

Mr. Penberthy is responsible for sourcing deals and administration of Rand’s investments and oversees the Company’s financial operations. He earned his Bachelor of Science from St. Bonaventure University and his Master of Business Administration from the State University of New York at Buffalo.



## **Margaret Brechtel – Vice President of Finance**

Ms. Brechtel is responsible for the Company's regulatory compliance and financial reporting. Ms. Brechtel has 20 years experience in the finance and accounting service industry. Prior to joining the Company, Ms. Brechtel was employed by Cellular One as the Operations and Finance Manager. Ms. Brechtel was also employed by KPMG LLP in the firm's audit practice. She earned her Bachelor of Science and her Master of Business Administration from the State University of New York at Buffalo and is a Certified Public Accountant in the State of New York.

**2200 Rand Building ♦ Buffalo, New York ♦ 716.853.0802**  
**[www.randcapital.com](http://www.randcapital.com)**



## Rand Past Ten Years Capital Exits

January 1, 2009 - December 31, 2018

Full-Cycle Investments Exited	Average Holding Length (years)	Total Cash Invested	Gross Cash Generated (Income & Gain)	Achieved Cash Multiple	IRR
25	5.4	\$23.8mm	\$75.4mm	3.2x	>29%

Note: Gross cash generated includes flow-through distributions from LLC-structured investments

***Tripled cash investment***

\* Past performance is not indicative of future results. No assurance can be given that Rand Capital will achieve its investment objective or that an investor will receive a return on investment.

# Portfolio Companies: By Revenue Stage\*



\* Reflects Rand Capital portfolio companies prior to transaction



## What is a RIC and how does it benefit the shareholder?

- A special type of “pass-through entity” that avoids typical double taxation on income at corporate and individual level on income and capital gains distributed to shareholders
  - More cash available for investors
- Must meet certain conditions:
  - **Income Test:** 90% of gross income from interest, dividend, capital gains and certain other types of income. Tested annually
  - **Asset Diversification Tests:** Minimum of 50% of assets in cash, cash equivalents or government securities or securities of other RIC issuers (such as portfolio investments) for which Rand holds no more than 5% of its assets in securities of the issuer and holds no more than 10% of the voting securities of such issuer. No more than 25% of assets may be invested in securities of any issuer or any two or more items that are controlled by Rand in the same or similar trades or businesses. Tested quarterly.
  - **Distribution Requirement:** Minimum of 90% of investment company taxable income must be distributed annually to shareholders as dividends.
  - Failure to meet RIC conditions could impact the federal income tax status of Rand Capital and impact the federal income tax treatment of its earnings



# What is a Business Development Company?

- Public BDCs are exchange-traded closed-end funds that enable investors to participate in high yielding private market investing while maintaining daily liquidity
- BDCs are regulated under the Investment Company Act of 1940 and have the following characteristics:
  - Diversification – 70% of a BDC’s investment portfolio must be in “eligible portfolio companies”
  - Transparency – Required annual and quarterly SEC filings
  - Fair Value – All investments are marked at fair value quarterly

For More Information, Contact:



**Deborah K. Pawlowski**

Investor Relations

(716) 843-3908

[dpawlowski@keiadvisors.com](mailto:dpawlowski@keiadvisors.com)