



**Operator:** Greetings and welcome to Rand Capital's Strategic Update. At this time, all participants are in a listen-only mode. If anyone should require Operator assistance during the conference, please press star, zero on your telephone keypad. As a reminder, this conference is being recorded.

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

**Deborah Pawlowski:** Good morning and welcome to Rand Capital's Strategic Update discussion. Today we will discuss the strategic investment by East Asset Management into Rand Capital and the plan to externalize management that was announced this morning. That release and the slides that accompany our discussion today are available on our website at [www.randcapital.com](http://www.randcapital.com).

Pete Grum, our Chief Executive Officer, will review the terms and expected benefits of the proposed transactions. We will also talk about Rand's strategy for growth following shareholder approvals and the closing of the transaction.

So you are aware, we will not be hosting a Q&A session today. We expect to file a proxy statement in the relatively near future that will provide more granular detail on the transactions and items upon which shareholders will be asked to vote.

If you would please turn to **Slide 2** of the presentation, I would like to point out some important information. First, we may make some forward-looking statements during this presentation. 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 what we expect today. These risks and uncertainties and other factors are described on this slide, 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 at [sec.gov](http://sec.gov).

Second, as I noted, we expect to file with the SEC a preliminary proxy statement in the next few weeks. The timing of mailing the definitive proxy statement will depend on the timing of review by the SEC. Investors of Rand Capital are urged to read the definitive proxy statement once filed in regards to the proposed transactions.

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

**Allen F. "Pete" Grum:** Thank you, Deb, and good morning everyone. These are exciting times for Rand. East Asset Management has agreed to make a significant strategic investment in the Company and our Board has approved these transformational transactions, subject to shareholder approval. We believe that the strategic investment, externalization of our management structure and the intent to become a regulated investment company for federal tax purposes creates immediate value for our shareholders and provides a solid path for our future growth as well.

Let me start with **Slide 3**, and provide an overview of the transactions. Our Board of Directors has approved a stock purchase agreement to sell approximately 8.3 million shares to East Asset Management for \$3 a share for total consideration of \$25 million. Note that the closing of



the issuance and sale of common stock is subject to several conditions, including certain shareholder and regulatory approvals, such as with the Small Business Administration.

The purchase price represents a 33% premium over the \$2.26 per share closing price yesterday. East Asset Management's, or East as I will refer to them, investment in Rand Capital will be a combination of cash and portfolio assets.

The Board has also approved entry into an investment management agreement with a new entity called "Rand Capital Management LLC." This agreement is subject to the closing of the stock purchase agreement by East. To avoid confusion with the similar names, I will refer to the management company as RCM. RCM, for your information, will be independently owned in part by East Management.

- Under this agreement, subject to shareholder approval, we will convert from an internally managed to an externally managed business development company, or "BDC".
- Rand Capital Management will include the current Rand team -- that is me; Dan Penberthy, our CFO; Margaret Brechtel, our VP of Finance, and Els Donaldson, our Office Manager.
- RCM will have an investment committee on which Dan and I will serve with three other financial advisors related to East and RCM. We expect the financial experience of the other members of the committee to augment our capabilities for sourcing new investment opportunities and the financial analysis of the investments.

As you can see on the slide, the management and incentive fee structure is typical of a BDC. We believe it enables a lower expense-to-asset ratio for Rand while incentivizing RCM to drive returns.

A major element of this transformation is the Board's intention to elect to be treated as a regulated investment company, or "RIC", which eliminates the corporate-level federal income tax on our annual earnings, as long as they are distributed to shareholders in a timely fashion. The investment by East will provide the necessary cash for a special distribution needed for Rand to meet the initial requirement to qualify as a RIC.

Both the stock sale and externalization of management require shareholder approval. We will also be seeking shareholder approval for an increase in authorized shares in order to provide for the share sale and to execute the special cash and stock dividend.

The contribution of the portfolio assets by East will be immediately accretive to net investment income and we plan to intensify our focus on income-producing assets, even more than we have in the last couple of years, to support a planned ongoing dividend in the future.

We believe that these transactions will be completed in the third quarter of this year.

Please turn to **Slide 4** which provides a graphic illustration of the transaction. Simply put, following shareholder approval, East will make a \$25 million strategic investment in Rand in return for 8,333,333.33 shares which equates to a purchase price for East of \$3 per share.



Then, Rand will externalize our management team into RCM, a newly formed, registered investment adviser.

Subsequently, with the closing of this transaction and subject to meeting certain tax related conditions, Rand Capital intends to declare a special cash and stock dividend to qualify as a RIC. Afterwards, going forward as a RIC, Rand plans to pay regular cash dividends to shareholders. We believe these transactions create both immediate and long-term value for our shareholders that we will discuss on Slide 5.

First, with the externalization, Rand's expense-to-asset ratio is expected to be measurably improved, while the incentive structure is focused on driving growth.

Second, we expect shareholders to benefit post-closing from the special dividend of approximately \$1.50 per share, for a total distribution of an estimated \$22 million in value. The distribution represents our accumulated earnings and profits since inception as a C-corporation and will allow us to initially qualify for RIC treatment for federal tax purposes. The final dividend amount is subject to review after closing, to ensure we meet the requirements for RIC status.

The distribution is expected to be a combination of 80% stock and 20% cash. Each shareholder will have the right to elect to receive their distribution in cash and/or stock, subject to the aggregate limitation on the cash available for distribution. If too many shareholders elect to receive the distribution in cash, the amount of cash available for distribution will be prorated among the shareholders electing to receive cash. The remainder of their distribution will be paid in Rand stock.

Third, going forward, to maintain our RIC status, among other things we will be required to distribute greater than 90% of our investment company taxable income. As a result, Rand intends to establish a regular cash dividend policy.

Fourth, we believe that with greater scale, the capital markets should look more favorably on Rand as an externally managed, dividend-paying BDC. We also believe that should improve our access to the capital markets to further leverage our growth potential.

Fifth, Dan, Margaret and I will have the benefit of the RCM investment committee supplemented with other professionals who bring extensive investment experience. We also expect to benefit from the strong network of family offices that East has built, with whom we can collaborate on investment opportunities, greatly enhancing our deal sourcing.

Finally, the future investment strategy for Rand will be more heavily focused on income-producing assets. We believe that quality, middle market companies are currently underserved by the traditional financial institutions and there is an abundance of opportunity to put capital to work in this space.

If you turn to **Slide 6**, this highlights the components of the strategic investment being provided by East.

There are six portfolio companies that comprise the portfolio assets being contributed by East. They represent a diverse set of industries and are yielding, on average, about 12%. They are



expected to generate approximately over \$1 million in annualized investment income for Rand. Also, as part of the transaction, East can designate two nominees for election to Rand's Board of Directors. The transformation of Rand is possible because of East's strategic investment.

If you turn to **Slide 7**, let me explain a key element related to the operations after the transactions, which is a planned election for treatment as Regulated Investment Company, or RIC, for federal tax purposes.

Simply put, a RIC is a special type of pass-through entity that avoids typical double-taxation of income for both the corporation and the individual by "passing through" the income and capital gains through timely distribution to shareholders.

We realize that several shareholders have wanted this type of transaction for some time. For some history, back in 2016 we presented the outcome of our strategic alternatives review. The election of RIC treatment was an option on the list but at that time it was unattainable. This was due to the lack of resources to meet the test to qualify as a RIC. We continued to look for ways to create shareholder value, and with the investment by East we are now able to transform our structure.

We believe this transformational event sets Rand up for stronger growth focused on shareholder returns, as we note on **Slide 8**. We see these organizational changes as creating a solid platform from which we plan to drive improved returns for our investors. Treatment as a RIC positions us as a more relevant peer among other publicly traded BDCs that provide regular dividends and who are rewarded with higher multiples.

Our intensified investment income strategy is expected to support an ongoing and ultimately growing cash dividend. Importantly, there is a much broader potential for new investments to facilitate our growth.

We believe that East's investment in Rand is a testament to the platform we have created as well as their commitment to Buffalo and Western New York. This strategic investment, combined with the approval for additional leverage from the SBA provides us greater liquidity to expand our portfolio and enable a step-change in our rate of growth and scale.

We look forward to talking to you on this more once the proxy statement is filed. Thank you for your interest in Rand Capital.

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