Pete Grum: Good afternoon. Thank you for attending the Microcap conference. I'm Pete Grum, President of Rand Capital; also here with me are Dan Penberthy, Chief Financial Officer, and Karen Howard who represents Kei Advisors, our investor relations firm. We're here to talk to you about Rand and we're here because we're looking for new people to buy the stock of Rand.

On slide 2 is the safe harbor statement, which you get from everyone.

Please turn to slide 3. Rand's been around for a long time. It's been around for over 40 years and was one of the founding members of NASDAQ in 1971. Dan and I have been working together for 20 years, and over that time we've grown it and we'll continue to grow it.

Slide 4. We are a mutual fund of investments in private companies. So, with an investment in Rand what you get is part of 30 different companies. Our results flow from how they do and when we monetize those investments. When I started 20 years ago doing this, we did $100,000 deals. Primarily due to our partnership with SBA, our deals are now in the $3 million range. And as we go forward in this presentation, I'm going to tell you we're in areas that other people aren't and tend to be the first institutional investors in these companies.

Slide 5. This is a good way to go through our history. The company was founded 1969. The real important thing is in 2002 when we created our first SBIC. For those who aren't aware, it's a Small Business Investment Company, which is a program that is administered by the Small Business Administration.

In 2002, we took $5 million of capital that was raised from selling a company called Pathlight. Rand put it into the SBIC subsidiary and received permission from the SBA to borrow up to $10 million. Over time, we borrowed that full $10 million and then repaid it, and through that original SBIC, we borrowed another $8 million which is currently outstanding at this point. We're now at a position where we started discussions with the SBA and we received a “green light” letter which I will talk about a little bit later.

Slide 6. The “green light” letter is very hard to get and very important, but it basically is from the SBA that says we like what you are doing and let's go forward with the process to create a new SBIC. We would like for you to apply. That application is fairly lengthy and I would think that next week we will make the application. If all goes well, we'll begin to invest out of that fund by the end of the month.

This is a formal application and there is no guarantee that it will happen, but it's a good sign given our excellent relationship with the Small Business Administration. We're well known and well respected by them. The reason we're able to go to them and say, “We'd like to do this” and they work with us despite the fact that we're their smallest SBIC is because of what’s shown on the next slide.

Slide 7. Over the last five years, we sold 12 companies. On average we were in there for six times and our returns have been spectacular with an IRR above 32% and cash-on-cash multiple above four times.

Slide 8. In the end, this is what happens at the company level. This encompasses not only our investment return but also our expenses as we are a tax paying entity at a corporate level. And at the bottom, you will see some of the exits which I will talk about next.

Slide 9. At the end of March last year, we exited a company called Gemcor. Gemcor has patented technology that allows you to put rivets in airplanes. Anytime you look out an airplane window and you see thousands and thousands of rivets, they probably did it. So, it's a technology that allows you to squeeze them automatically. It was an old line Buffalo company that had some problems. We came in, recapped the company and changed their business model. Frankly, we outsourced everything except for engineering, sales, aftermarket sales and marketing. So, we outsourced all of the manufacturing. Gemcor now buys components and puts the machines together.

So in 2004 we invested $625,000 for about a third of the Company; it had about $8 million of sales at that time. We sold it last year with $32 million in sales and, on the day of the sale, we got $14 million. What's not in there, is that over time we had also taken out about $10 million of dividends.

Another company which we were proud to invest in is BinOptics, which made lasers. These are lasers that would be in telecommunications equipment, so if you're upgrading to the 4G or 5G, those all have little lasers in them that are sending the stuff out. This is a good technology that has been around for about 14 years. We came in with a group and recapped the company. We invested in 2011, sold it three years later; $1.8 million turned into about $10 million. In fact, we just got our last escrow released from that.

Liazon was a local Buffalo company, healthcare benefits primarily, and we sold it to Towers Watson. We invested in 2010 and then three years later we got about five times our money.

Synacor is also a local company. We invested under $1 million when there was under $1 million in sales, and consisted of about 20 people. It is now a public company. It's the only exit that we've had from a public offering. Now they now have a couple hundred people and couple of $100 million in sales.

Those are some of our winners that we like to talk about.

Slide 10. Our business model is different from most BDCs. Most BDCs are similar to a private bank. They are providing loans and they are taking those loans receipts and interest and they are paying the funds out in the form of dividends. We're both BDCs. They made an election under the IRS code of Regulation M that allows them to be taxed as a pass through. We are taxed as a corporation. The benefit we have is that we are an evergreen fund and continue to keep the money inside the Company. Most BDCs always have to access the capital markets to grow.

Slide 11. So, a way to look at our portfolio, we have about 30 companies all over the board as far as revenue. And so, if you start at the left, these are all primarily early stage in our mind. They almost all have a product that we learn about based on our due diligence with their customers. Also, to characterize, they have up to about $1 million in sales and may lose money. We're really providing expansion capital for these companies.

As we go from the left to the right, the other side is Carolina Skiff which is a leverage buyout we did. They are the largest US producer of boats in their class. The class is 30 feet and under fiberglass with an outboard motor. They have about 12% of the market; it's a big company. They sell about 3,500 to 3,600 boats a year. So, as our companies go from the left to the right and grow revenue, that is primarily when our ability to monetize the transaction through sales comes about.

As I said, we had one company go public. I don't think any of any of these will go public. Primarily our exits are to strategic buyers and, although we talked about trying to complete a deal in about five years, the market comes when the market comes. Many of them have been unsolicited inbound calls. When we sold Liazon to Towers Watson, literally we were having a Board call to raise more money and they called and then within two or three months they had a sale.

Slide 12. Rand makes investments and that's our primary business. We make about 10 investments per year, usually about $5 million in total. So the 10 investments typically are three new companies on average and seven follow-ons. The follow-ons were in this SBIC that I talked about, we have had 50 companies and about 160 transactions since 2002. On average, we're investing three times within these companies, as they grow, or as they have hiccups along the way.

I can't promise you, but I think we may have the ability to sell Rhēonix over the next two to five years Rhēonix has technology that came out of Cornell. It has approximately 220 patents and it's a genetic testing device. So you put a piece of whatever you are going to test and it runs by itself and does testing. We have a Chinese partner who is selling the product right now into the Chinese market. I believe in the U.S. there are about 15,000 hospitals. In China, I think there are 45,000. The Chinese FDA is a little more lenient than the U.S. FDA. We're going through some FDA testing for the U.S. market. We are actively selling now in the beer and wine market and they use it to take tests of beer to find out about the bacteria in beer; some of it turns skunky and they try to avoid that.

SciAps is a management team we invested with and had a very successful exit. They are back there with a hand held device that tests metal primarily through technology.

Outmatch is a company out of Dallas now and it does human resources software to help you run a company's HR and to grow its people and to do assessment testing on the way in.

Social Flow is in the social media. If you ever look at Facebook and you see ads by Time or National Geographic articles for example, those are all done through the Social Flow engine which tells them when and who to post to and also to associate ads with.

We've been in Microcision for a while and they are a very, very high end and specific machine tool that can do titanium and other exotic metals. A lot of surgical companies that do spine surgery use them as a source.

Slide 13. Here's a little bit more about these companies. These are our largest investments, about 43% our portfolio currently. There is more information about them, such as when we invested, how much we invested and their industry. As you can see, Genicon is a fairly new investment, but we are supporting them both through debt and equity.

As a fund we have bills to pay, so our investments are structured both as debt and equity. Our goal is and we're not going to make it this year, but we have in the past to have our operating expense covered by interest and dividend income from our portfolio companies.

Slide 15. Another way to look at our portfolio, we're diversified across the industries with healthcare, software and manufacturing being the majority of it. This is on purpose. We've been a diversified fund forever. And it's kind of our skillset, we're kind of generalists. The thing that you will never see is real estate, and that's by statute. We also tend to not do life sciences and we tend to not do retail.

Slide 16. How do we do it? We are, and our industry is, regionally focused and it should be, because we spend a lot of time with the companies. We have to get to them efficiently and meet with them one-on-one. It does not work if you're taking phone calls and doing everything through emails. So, we're in Buffalo. We lead deals there. We always invest with other institutional investors, so we will bring capital to Buffalo, Rochester and Ithaca from other people we've invested with. We have a handful in New York City and a couple in Massachusetts.

The reason we're outside of the area is generally because of an investment partner. Genicon, which I talked about earlier, is a Florida company. It came to us from Advantage Capital, with whom we have a long history of investing. They reached out to us and brought us into that deal.

Slide 17. The way we operate the company is called "internally managed" as opposed to some which are "externally managed" – we are employees of Rand. Any fees we receive from being on the Boards of our portfolio companies stay within Rand. And as we grow our asset base over time, we get operational leverage and you can see that as our expense ratio declines over time.

Slide 19. Our co-investment partners are very important to our success. These are ones that you may know that we have co-invested with and brought in to deals. As our companies grow, they need more money and hopefully we can provide them, but there are also times when it's more money than we can put in, and we will reach out and work with these people. We have done it consistently and so when Rand invests, these relationships are one of the things that is a competitive advantage for us.

Slide 18. Our biggest co-investment partner, who we talked about earlier, is the U.S. Small Business Administration, through their program as a Small Business Investment Company. It's access to long-term capital in the form of a debenture. So, in essence, we're borrowing 10-year money from them. The $8 million that we currently have, has a rate of about 3.5% and if we borrow today, I think it would probably be closer to 4.5%. These all get pooled and are sold as agency debt. So, it comes out as usually the U.S. 10-year treasury rate plus 120 basis points.

Slide 20. Our balance sheet at the end of the year reflects $12.3 million in cash, a historically high level for us. We had that big exit from Gemcor in early 2016, and $7.5 million of those proceeds were taken and put aside for this new SBIC. Our net asset value at the end of the year is $5.16 as opposed to the current trading price of our stock which is about $3. That represents a historically low ratio and that's what we're trying to work on.

Slide 21. Here is our stock. As you can see there is some loose correlation with exits which we've put in there for you to track. The bottom line, which is the S&P BDC Index, has been out of favor and has not traded well relative to the S&P 500 Index. For most of this time period, we've traded somewhat better than our peers in the BDC Index.

Slide 22. Why should you buy Rand? We have strong historical performance, a little bit lumpy as far as our exits but we can’t really plan those. We have a proven management team here. The team is going to be the team going forward. There are only four of us; that keeps our expenses low. We delivered shareholder returns over time and the strategy that we have to grow the business is sound and it's illustrated.

Hopefully we're going to get the deal done with the SBA; for now we can say we've made great strides to achieve that.

We are the only early/expansion stage SBIC in Upstate New York, and I believe there is only one other one in Upstate New York and they primarily do bank-type deals. Among our investment partners and the investing community, we're well respected; we have the ability to react quickly and we're honest. If we say we're going to do something, we can do something and we do it.

We also have from time-to-time bought shares back and can't tell you we're going to do it again or when we're going to do it again. But we do have that as an ability.

In a moment, I'm going to stop and take some questions. Before I do, I want to point out that we have a lot of information about all of our current portfolio companies here in slides 23 through 41. You can see when we first invested, where they’re based, what they do, our equity ownership level (if any), the types of investments that we own, our cost and our current carrying value. We also have some pictures on each, and list some of our investment partners. This will give you some more information about these companies, available for you to peruse at your leisure. And this is now a natural stopping point for me to take questions.

<Q>: How often do you value your investments?

Pete Grum: We value them quarterly because we’re a public company. Valuations are done on an individual company basis. On our website is our valuation policy which complies with the SBA requirements, primarily considers things you would expect. Valuations tend to stay at cost unless the company deteriorates and makes a valuation adjustment or if there is money raised from new investors outside the company. Those are the two main things impacting changes in valuation. There are some instances where, a company has been around a long time and it has positive cash flow for a number of years, we can then use an EBITDA model to update valuation.

<Q>: I once invested in your company many years ago. The stock never really moved, so I got out of it. But my question to you is, you’re in a unique position I think, Governor Cuomo has an initiative I think trying to reinvest throughout the state and may narrow the charge of Small Business Administration – can you comment on this? Also from New York, I used to do business with Titan Sports before they became World Wrestling Federation. Do you see opportunity for the business now at this point to take on more momentum so to speak and perhaps maybe in the future provide shareholders any dividend?

Pete Grum: Let me take it in two pieces. Your first question was regarding the tenor of Upstate New York investment and we're very involved in that community. The governor, I think maybe as a precursor to running for President, wants to point to Buffalo and say he turned it around. So, he created the Buffalo Billion with tax free zones and he also has a business plan competition in Buffalo called 43North, which is the largest in the country that carries a $5 million prize.

We're very involved with that. Rand has looked at companies that have come through that program. Some of them that we've invested in have been beneficiaries of that program. I think there is a state budget vote today and the Buffalo Billion II is part of that which would be continued money for that program. And there are some other programs throughout other parts of Buffalo, a huge emphasis on making Buffalo more vibrant economically.

As far as the dividend, we don't contemplate that in the near future. Our issue is we need to be bigger. And to give you the money as a dividend doesn't do that for us. But if we do get to a point where we are producing excess money beyond our investing needs, we will consider a dividend.

<Q>: You indicated that – I think it was Slide 3, your stock sells for about $3. I'm just wondering as it relates to the first question of valuation of the companies in your portfolio, what you stated as the method sounds conservative. Are investors on Wall Street worried about the portfolio valuation? Are they worried perhaps that that may not be exactly right? I'm trying to account for why the discount?

Pete Grum: I've never heard that. I think it's primarily supply and demand. For a number of years we traded closer to our NAV. We traded above book from about 2004 to 2009. It was beneficial because in 2008, when we were not sure what was going to happen due to the great recession, we went out and raised nearly $4 million of equity and we are able to get that done at book value. Because of the laws governing SBICs, raising money below book value is problematic because the shareholders have to agree to such a transaction and no one really wants to sell stock below book value.

I have never heard from anyone that it's trading low because they don't believe our valuations. We can historically point to our valuations, and see that they were correct. I think it's a supply and demand of our stock in the current market. We hired Kei Advisors to help with our investor relations initiative. They wish we would have started years ago, with going to places like this to get more exposure. Since we have been involved with them, it's a small step. So, we just have 6 million shares outstanding and average daily trading volume is up to about 10,000 per day.

<Q>: Are you looking to partner with University of Rochester or RIT?

Pete Grum: We do have relationships with the Simon Business School of the University of Rochester. There is a guy who sold a telephone company out of Rochester that has his own firm called Cranberry Capital. We look at their technologies as they come out. The Cornell Tech transfer is much better than any others that I've seen, but we have looked at some of the Rochester ones.

<Q>: Can you explain your relationship with M&T Bank?

Pete Grum: We don't have a formal relationship other than that's where we bank.

<Q>: Is it true that one of your Directors used to be there?

Pete Grum: Our Chairman of the Board used to be a director of M&T. And Jayne Rand, whose dad started Rand Capital Corporation, is currently a mortgage loan officer for M&T. But it's not a formal relationship, they are not an investor as M&T Bank.

<Q>: So that's your bank?

Pete Grum: Yes. We just moved over to them and it's been our bank for three months. We were with Marine Midland for years, and then they got sold multiple times and then we had to move to a new bank.

<Q>: If I understand your business correctly an investor pays market value and your stock trades for about 60 cents on the dollar relative to your book value. Am I missing something?

Pete Grum: No, no, I think that's exactly right.

<Q>: With such a discount to book value, why don't you use all of your cash and buy your own stock in the open market?

Pete Grum: Because that would be a death spiral. We would be left with no money to invest. What do we do, just fire everyone and then just have someone come in and, when they get a check from an exit, go back out and buy some more stock back? We need money to grow our business; either we're going to grow the company or we're going to shut the company down. And if we take all of our cash and buy as many shares back as we can, then there is no money to grow the company.

<Q>: I am confused as to why that's a binary action – why don't you maintain a proper authorization without growing very marginally, while fixing the disconnect between the book value and market value? Are you saying you go out and buy a company at 100 cents on a dollar, then your stock trades at 60 cents on a dollar?

Pete Grum: The reason we are here is to get more buyers of our stock and to close the discount gap, taking care of the market. We are working to get our stock trading above book now, as it has in the past. Our goal is to get above book.

<Q>: Where do you see debt? Do you see levering up by taking on debt as an option for buying stock?

Pete Grum: We have limitations as an SBIC; the SBA is our one best source for debt capital. I'm getting a signal that we're out of time here.

<Q>: Let's further this discussion in the hallway.

Pete Grum: Okay. Thank you all for your interest in Rand Capital. Thank you very much.