



JZ CAPITAL PARTNERS LIMITED

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(a closed-end investment company incorporated with limited liability under the laws of Guernsey with registered number 48761)

Q3 2018 Interim Management Statement **19 December 2018**

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(Classified Regulated Information, under DTR 6 Annex 1 section 1.1)

JZ Capital Partners Limited (LSE: JZCP.L, the “Company” or “JZCP”), the London listed fund that selectively invests in US and European micro-cap companies and US real estate, today releases its Interim Management Statement for the period 1 September 2018 to 30 November 2018.

Results Highlights

- Net Asset Value (“NAV”) of \$811.5 million (28/02/18: \$837.6 million)
- NAV per share of \$9.80, approximately flat for the quarter (31/08/18: \$9.82)
- \$81.1 million realized, including:
 - \$31.3 million from TWH Water Treatment Industries, Inc. (plus up to a further approximately \$1.2 million in post-closing adjustments and \$5.0 million in earn-out proceeds)
 - \$8.3 million from the refinance of Esperante
 - \$40.3 million (post-period) from the sale of a minority stake in JZCP’s Fulton Mall assemblage at NAV to HomeFed, a real estate investor and developer of mixed-use projects in the United States
- \$41.1 million invested, including:
 - \$14.0 million in a new Flow Controls vertical
 - \$14.5 million in Evriholder, a complementary acquisition to our Deflecto investment
 - \$4.8 million in Orizon, a manufacturer of high precision machine parts and tools for the aerospace and defence industries
 - \$1.8 million in Avante, a build-up in the healthcare products space
 - \$5.0 million in follow-on real estate investments in our Fulton Mall and Wynwood assemblages
- At the end of the period, the portfolio consisted of 42 micro-cap investments across nine industries and five major real estate “assemblages” located in New York and South Florida

David Zalaznick, Founder and Investment Advisor of JZCP said: “We are pleased with the steady performance of the underlying portfolio and series of successful realizations completed during the period. In particular, we are excited about the recently

announced joint venture partnership with HomeFed with regards to JZCP's Fulton Mall assemblage, which has returned more than \$40 million in proceeds to JZCP.

We look forward to further realizations in early 2019 and intend to pursue a tender offer funded with a significant portion of the proceeds, subject to shareholder approval.”

Net Asset Value

NAV per share for the quarter decreased from \$9.82 to \$9.80, or 0.2%.

NAV Returns

Net Asset Value per Ordinary Share as of 1 September 2018	\$9.82
<i>Change in NAV per share due to capital gains and income received / accrued on investments</i>	
US Micro-cap	0.06
European Micro-cap.....	0.06
<i>Other changes in NAV per share</i>	
Change in CULS Fair Value.....	0.01
Finance Costs	(0.07)
Foreign Exchange Effect.....	(0.02)
Expenses and Taxation	(0.07)
Appreciation from Share Buyback	0.01
Net Asset Value per Ordinary Share as of 30 November 2018	<u>\$9.80</u>

The US micro-cap portfolio had a net increase of 6 cents, primarily due to write-ups at our Logistics vertical (2 cents) and net accrued income of 6 cents. These increases were offset by a write-down at our Nationwide investment (3 cents).

The European micro-cap portfolio had an increase of 6 cents, primarily due to write-ups at portfolio companies S.A.C, Eliantus and Fincontinuo, as well as accrued income of 1 cent.

The real estate portfolio was flat for the quarter.

The chart below summarizes the cumulative total NAV returns and total shareholder returns for the most recent three-month, twelve-month, three-year and five-year period.

	30/11/18	31/08/18	30/11/17	30/11/15	30/11/13
Share price (in GBP)	£4.74	£4.44	£5.09	£3.93	£4.45
NAV per share (in USD)	\$9.80	\$9.82	\$9.91	\$9.51	\$9.94
NAV to market price discount	38%	41%	30%	38%	27%
		3 month return	12 month return	3 year return	5 year return
Dividends paid (in USD)	—	—	—	\$0.31	\$0.95
Total Shareholders' return (GBP) ¹	—	6.8%	(6.8)%	25.4%	25.7%
Total NAV return per share (USD) ¹	—	(0.2)%	(1.1)%	6.2%	8.3%
Total Adjusted NAV return per share (USD) ^{1/2}	—	(0.2)%	(1.6)%	5.6%	18.8%

(1) Total returns are cumulative and assume that dividends were reinvested

(2) Adjusted NAV returns reflect the return per share before (i) the dilution resulting from the issue of 18,888,909 ordinary shares at a discount to NAV on 30 September 2015 and (ii) subsequent appreciation of the buyback of ordinary shares at a discount

RECENT ACTIVITIES

Upcoming Tender Offer

As we reported in our Adviser's Report for the six-month period ended 31 August 2018, we have repurchased a small amount of our stock at a significant discount during 2018, although it has proved challenging to find a sufficient volume of shares in the market at prevailing market prices.

We continue to anticipate a number of realizations in early 2019 and, subject to shareholder approval, intend to pursue a tender offer of ordinary shares (at a price no wider than a five percent discount to NAV) funded with a significant portion of these realizations. Realization proceeds will also be used in part to repay bank borrowings. Further details of the tender offer will be announced by the Company in due course.

Significant Investments and Realizations

US Micro-cap Investments – Verticals

In November 2018, JZCP invested approximately \$14 million in a new Flow Controls vertical, which was used to make the first acquisition into the vertical, a premium manufacturer and distributor of sanitary and biopharmaceutical stainless steel fittings, valves and tubing primarily used in the food, beverage, dairy and biopharmaceutical industries.

We have identified the large and highly fragmented flow controls industry as an attractive industry to pursue a build-up strategy. Our acquisition efforts will be focused on niche businesses involved with manufacturing and distributing high margin flow handling products and components utilized to connect processing line equipment for end-markets

such as pharmaceutical, food & beverage, power generation, chemicals and water management.

Co-investments

In October 2018, JZCP funded approximately \$14.5 million to purchase Evriholder, a complementary acquisition to our Deflecto investment. Founded in 1994 and headquartered in Anaheim, California, Evriholder designs and distributes everyday household items, including kitchen products, cleaning products, bath and beauty items and storage/organization units. Evriholder specializes in the “impulse” product segment and primarily sells its products through mass retailers, specialty retailers, supermarkets, e-commerce and dollar stores.

Other US Micro-cap Investments

In September 2018, JZCP invested approximately \$1.8 million to acquire Ultra Solutions, an add-on investment to our Avante platform (formerly known as Jordan Health Products). Founded in 1999, Ultra Solutions sells, services, and installs refurbished medical imaging equipment, specializing in ultrasound equipment. Since inception, Ultra Solutions has expanded to cover many different facets of ultrasound imaging by selling equipment/parts, repairing systems/probes and providing service, training and technical support.

Real Estate Investments

In the three-month period ended 30 November 2018, JZCP invested a total of \$5.0 million in follow-on investments in our Fulton and Wynwood assemblages.

Realizations

TWH Water Treatment Industries, Inc. (“TWH”)

In September 2018, TWH merged with DuBois Chemicals, Inc. (“DuBois”), a specialty chemical company that provides value-added chemicals, equipment and service.

JZCP realized \$31.3 million in initial gross proceeds from the merger (subject to post-closing adjustments), plus potentially up to \$5 million of additional gross proceeds from an earn-out based on certain revenue targets of TWH. Including gross proceeds from a dividend recapitalization in November 2016, the transaction is expected to represent a gross MOIC of approximately 3.1x and a gross IRR of approximately 25%, in each case taking into account the receipt of full post-closing adjustments and earn-out proceeds. Additionally, the sale of TWH represents an uplift to JZCP’s NAV of approximately 2.7%, again taking into account the receipt of full post-closing adjustments and earn-out proceeds.

Esperante

In October 2018, JZCP refinanced Esperante, its office building in West Palm Beach, Florida. This refinancing resulted in refinancing proceeds to JZCP of \$8.3 million.

Fulton Mall Assemblage

In December 2018 (post-period), JZCP and HomeFed, a real estate investor and developer of mixed-use projects in the United States, announced that they have become joint venture partners with regards to JZCP's Fulton Mall assemblage. HomeFed is approximately 70% owned by Jefferies, a diversified financial services company. HomeFed acquired a minority stake in JZCP's Fulton Mall assemblage for approximately \$52.5 million, of which approximately \$40.3 million is attributable to JZCP. The sale price is at NAV.

JZCP and its real estate operating partner, RedSky Capital, plan to develop the Fulton Mall assemblage in partnership with HomeFed.

PORTFOLIO SUMMARY

At 30 November 2018, the Company's portfolio consisted of 42 micro-cap investments across nine major industries and five major real estate "assemblages" located in New York and South Florida.

(\$'000)	At 30/11/18	At 28/02/18	% Gross Assets 30/11/18
US Micro-cap Portfolio.....	460,635	488,258	41.3%
European Micro-cap Portfolio.....	122,953	103,457	11.0%
Real Estate Portfolio.....	457,998	463,391	41.1%
Other Portfolio	18,382	16,897	1.6%
Total Private Investments.....	1,059,968	1,072,003	95.0%
Cash and Liquid Investments	53,438	83,962	4.8%
Total Investments (and Cash).....	1,113,406	1,155,965	99.8%
Other Current Assets.....	1,208	507	0.2%
Total Investments (and Cash)	1,114,614	1,156,472	100.0%

At 30 November 2018, 4.8% of gross assets were invested in liquid assets (cash). The remaining portion of the portfolio was invested in private investments in US or European micro-cap companies or real estate. Our micro-cap investments are valued at fair value by JZCP's directors each quarter whereas our real estate portfolio is valued at least annually and based upon third-party appraisals, generally done prior to JZCP's fiscal year end.

We value our privately held businesses cautiously. Our average multiple used for our US micro-cap businesses is 8.2x trailing EBITDA. In addition, we do not have substantial debt in these businesses. The multiple of debt senior to JZCP's position is approximately 4.0x EBITDA.

Top Ten Investments

Our ten largest investments as of 30 November 2018 are summarized below:

(\$000's)	<u>Asset Category</u>	<u>Valuation 30/11/18</u>	<u>% Gross Assets 30/11/18</u>
Design District Assemblage	Real Estate	105,292	9.4%
Industrial Services Solutions Vertical	US	92,864	8.3%
Fulton Mall Assemblage	Real Estate	82,724	7.4%
Greenpoint	Real Estate	67,363	6.0%
JZI Fund III, L.P.	European	61,990	5.6%
Williamsburg Retail Assemblage	Real Estate	60,735	5.4%
TierPoint.....	US	46,813	4.2%
Deflecto.....	US	39,915	3.6%
Avante.....	US	39,816	3.6%
Felix Storch.....	US	38,106	3.4%
Top Ten Investments		635,618	56.9%
Remaining Assets		478,996	43.1%
Gross Assets.....		1,114,614	100.0%

Balance Sheet

Below is a summary of JZCP's balance sheet as of the relevant dates:

(\$000's)	<u>30/11/18</u>	<u>28/02/18</u>
Cash and cash equivalents	53,438	83,962
Investments & other assets.....	1,061,176	1,072,510
(-) Other net liabilities	(242,638)	(256,056)
(-) ZDPs due 2022.....	(60,440)	(62,843)
Net Asset Value	811,536	837,573

At 30 November 2018, "other net liabilities" includes \$52.1 million from the issuance of Convertible Unsecured Loan Stock ("CULS") in July 2014, which carries an interest rate of 6%, and \$148.9 million from a six-year term loan with Guggenheim Partners, which carries an interest rate of LIBOR plus 5.75%.

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About JZCP

JZ Capital Partners (“JZCP”) is one of the oldest closed-end investment companies listed on the London Stock Exchange. It seeks to provide shareholders with a return by investing selectively in US and European microcap companies and US real estate. JZCP receives investment advice from Jordan/Zalaznick Advisers, Inc. (“JZAI”) which is led by David Zalaznick and Jay Jordan. They have worked together for more than 35 years and are supported by teams of investment professionals in New York, Chicago, London and Madrid. JZAI’s experts work with the existing management of micro-cap companies to help build better businesses, create value and deliver strong returns for investors. For more information please visit www.jzcp.com.