HAZELTON CAPITAL PARTNERS

"Simplicity is The Ultimate Sophistication"

October 20, 2017

3rd Quarter 2017 Letter to Investors

Dear Partner,
Hazelton Capital Partners, LLC (the "Fund") gained 7.4% from July 1, 2017 through September 30, 2017, gained 16.2% year-to-date and has returned 114% since its inception in August 2009. By comparison, the S&P 500 gained 4.5% in the same quarter, increased 14.2% year-to-date and has returned 187% since the Fund's inception.

The Quarter in Review – Position Updates
Hazelton Capital Partners ended the 3rd quarter with a portfolio of 16 equity positions and a cash level equivalent to 27% of assets under management. The top five portfolio holdings, which are equal to over 41% of the Fund's net assets, are: **Micron Technology (MU)**, **Western Digital (WDC)**, **USA Technologies (USAT), Manitiwoc (MTW)** and **EZCorp (EZPW)**. Throughout the quarter, the Fund continued to prune its portfolio, selling its **Softbank (SFTBY)** position, scaling back on **Apple (AAPL),** and redeploying some of the capital back into current holdings. No new positions were added to the portfolio in the 3rd quarter.

Micron Technology (MU) - *Current Holding*
Micron has been Hazelton Capital Partners' best-performing stock year-to-date and has taken over as its top holding. The company has witnessed strength in both its DRAM and NAND segments, leading to an EPS (earnings per share) of $4.86 for 2017 and the market is expecting over $6.50 for 2018. Closing out the quarter just under $40/share, Micron is currently trading at a PE (price to earnings) of 8.2x and 6.2x for 2018 - a true indication that the market does not believe that the current DRAM and NAND average selling price is sustainable.

In the past, the digital memory and storage industry has been a victim of rapid technological change and competition amongst its members, preventing companies from achieving a meaningful return on their invested capital. Today, with 3 major players in DRAM and 5 in NAND, pricing is primarily driven by production capacity and not to achieve market share, as industry players have become more "rational." Cyclicality will continue to play a role, but as demand for digital memory and storage expands from an increasingly connected data ecosystem, including the cloud, data storage, mobile devices and now the burgeoning IoT (internet of things), it is expected that the duration of the cycle will be longer with a muted peak to trough pricing, leading to a stronger and more sustainable average selling price.

At the same time that the average selling price of both DRAM and NAND is forecasted to decline over the next year, industry players will be able to leverage recent production advancements to lower production costs, allowing for continued healthy margin.

Even with the significant rise in its share price, Hazelton Capital Partners still sees more upside opportunity.

EZCorp (EZPW) - *Current Holding*

In July of this year, Hazelton Capital Partners began adding shares of EZCorp, the 2nd largest pawn shop operator in the United States, to the portfolio. The Fund has bought and sold shares of the company over the past three years, but this is the first time EZPW became a top five holding.

Historically, pawn shops have the reputation of being a sleazy business that preys on the disadvantaged by charging high fees to either receive cash or a loan for one's personal property. Pawning personal property is a short-term loan; a pawn customer exchanges a personal item for cash equal to between 40-70% of the appraised value of the property. In order to get the item back, the individual needs to repay the original loan plus interest, in which rates and fees can hit monthly levels in excess of 25%. It is important to remember that the majority of the individuals who use pawn shops do so because they do not have access to traditional bank loans due to the size of the loan (average pawn loan is less than $150) and/or because they lack a banking relationship. A recent FDIC survey found that approximately 27% of American Households were either under or unbanked - that equates to nearly 67 million American adults. For these working-class Americans in need of short-term money, pawn shops provide immediate access to cash to cover living expenses. Today, pawn shops have become mainstream, moving from the back alleys of impoverished neighborhoods to upscale malls and office buildings. The majority of the roughly 13,000 pawn shops in the US are family run, customer friendly businesses that have been designed to resemble a retail store. Instead of eliminating pawn shops, the federal and state governments have chosen to regulate them, recognizing that they provide a much needed financial service.

Increased regulation actually acts as a competitive edge for EZPW, as it is able to spread this growing fixed operational cost across its 517 stores, while smaller operators are negatively impacted. This creates an environment ripe for consolidation. EZCorp is in the process of deploying a Point of Sale system that will not only help streamline store operations but will allow for real-time benefits in managing inventory, and pawn loan pricing. Very few pawn operators can afford this type of dynamic, in-store system that pays for itself in less than three years.

A mixture of declining gold prices (jewelry is the number one pawned item and revenues are highly correlated to the price of gold), bad management decisions, and a non-attentive board created a headwind for EZCorp and its share price. A new management team took over in 2014 and began exiting all of its non-core businesses to focus solely on its pawn operations. The restructuring delayed the quick recovery that the market had hoped for. However, by mid 2016, with much of its restructuring charges, write-downs and impairments already known, EZPW shares began a meaningful recovery. By late 2016 early 2017, Hazelton Capital Partners had reduced its holding in EZCorp, waiting for an opportunity to either close out the position at a higher level or re-establish the position at a meaningful discount. The Fund got the opportunity to rebuild its position on June 27th, when EZPW announced a $125 million convertible debt offering. The market reacted negatively to the news, driving the company's share price down over 25% from the Fund's sell level earlier in the year and providing a nice re-entry point.

Hazelton Capital Partners believes there to be a meaningful discount between the company's share price and its intrinsic value. The contraction in operating margins is directly related to the restructuring of the company's core pawn business. Starting in 2018, most of the write-downs, impairment and restructuring charges will have been taken, leading to increased profits and free cash flow. The improved free cash flow could be used for future acquisitions or reducing debt, allowing the company to be debt free within the next 4-5 years. Hazelton Capital Partners has mapped out a bearish, base, and bullish case outlook for EZPW's business plan execution. The Fund believes there to be a conservative 65% upside to its base case outlook, a smaller return to its bear case and a meaningful opportunity if the company executes above expectations.

Softbank (SFTBY) - *Closed* ***78% Gain***

After scaling back in the 2nd Quarter of this year, Hazelton Capital Partners closed out of its Softbank position over the summer. The Fund's thesis did not change, as we still believe there to be a discount between the sum of Softbank's parts and its share price. However, the trajectory to achieve that valuation is now less certain as Softbank's CEO, Masayoshi Son, launched a $100 billion fund to invest in artificial intelligence (AI), connected devices, "integration of computers and humans," and other technology companies. Son's Vision Fund gives him access to a pool of capital that is equal to the 5 largest global private equity funds put together. The concern is not with Masayoshi Son's ability to allocate capital, as he has proven himself to be a gifted investor, but that Son will be incentivized to invest the money quickly, at a time when market valuations are not cheap.

With interest rates at historic lows for the past 10 years, investors have grown impatient for investment yield as an abundance of capital has been flowing into both public and private equities. The American Investment Council reported that private equity capital reserves are up more than 50% since 2012 to an estimated $1.55 trillion, considerably changing the funding landscape for startups over the past number of years. By the late 1990s, the average age of a startup before it went public was 4 years. Today, that number has risen to nearly 12 years. With access to a seemingly endless supply of private and venture capital, startup companies are becoming "Unicorns," private companies that quickly achieve a market valuation of over $1 billion. A startup company can go through multiple funding rounds, improve its market valuation, avoid regulatory scrutiny, achieve liquidity for its early investors and employees, all without ever having to go public. In fact, the lure of young companies to go public has been tempered by growing expenses, activist investors and a bureaucratic regulatory environment.

The changing landscape for private companies is also having an impact on public companies as well. In the 1990s, the average number of US companies going public was approximately 400/year; for the past 10 years that number has dropped to roughly 170/year. Combined with an active merger and acquisition environment, bankruptcies, and non-qualification, the number of listed US domestic stocks have fallen by over 50% from its 1996 high of 7,322, achieving the lowest level over the past 42 years.

The environment of too much money chasing too few assets is seen by many as a reason for the longevity of the of the recent market rally and the motivation of why a private company like Uber, an on-demand ride-hailing service founded in 2009, is now worth approximately $69 billion. If Uber were a public company, it would be ranked around the 75th largest company in the US based on market capitalization and the 2nd largest transportation company ahead of FedEx. When one buys shares of FedEx, with a market capitalization of $60 billion, one invests in a company that employs roughly 400 thousand full and part-time employees that own and operates nearly 600 planes and over 66,000 vehicles and truck trailers. But for just $9 billion more one can invest in Uber, which does not own or maintain its fleet of cars and whose drivers are independent contractors. A bullish Uber investor sees an investment in the future of on-demand transportation that is disrupting the livery car industry, with profitability taking a back seat to market share. For someone who is bearish, it is impossible to justify paying $69 billion for a company with a ride hailing app whose business model has yet to be profitable that is disrupting an industry that has historically been unprofitable. In the long-run, this Uber Bull/Bear battle will rage over the foreseeable future as ride-hailing accounts for less than 0.5% of US passenger car miles traveled. In the short-run the only clear winner will be the consumer.

Masayoshi Son has not hidden the fact that he has a strong desire to be in the ride-hailing space, as Softbank is already the largest shareholder in the foreign companies (Ola in India, Didi Chuxing in China, Grab in Southeast Asia and 99 in Latin America) and is anxious to establish a foothold in North America. It has been widely reported that the Vision Fund is actively pursuing a 15% investment in Uber which is expected to cost in the range of $9 - $10 billion.

Son's vision for the future is that AI and robotics will inexorably change our world, and his goal is to own the companies that will play a significant role in that outlook. With a 300 year plan to build softbank into the world's most valuable company, even Masayoshi Son could easily justify paying a market premium for an acquisition.

Hazelton Capital Partners' plan has always been to lighten its Softbank position in the low to mid $40/share range. Above $40/share, the discount between Softbank's assets and its share price is less substantial as when the Fund first purchased shares. Once Hazelton Capital Partners began selling shares, and with Son's new focus on investing the Vision Fund's capital, the decision was made to sell the entire position.

We will continue to review Softbank and its valuation and welcome the opportunity to reinvest in Masayoshi Son.

Administrative

Investing in Hazelton Capital Partners

Hazelton Capital Partners was created as an investment vehicle, allowing those interested in long-term exposure to the equity market to invest along-side me. With a substantial portion of my own capital in the fund, I manage Hazelton Capital Partners assets in the same manner in which I manage my own capital. The best source of introduction to potential investors in the Fund has come from those that have invested or followed Hazelton Capital Partners progress over the years. Introductions are both welcome and appreciated.

If you are interested in making or increasing your contribution to Hazelton Capital Partners or just learning more about The Fund, please feel free to contact me.

Please do not hesitate to call me at (312) 970-9202 or email me bpasikov@hazeltoncapital.com with any questions or concerns.

Warm Regards,

Barry Pasikov
Managing Member