Safeguard Scientifics, Inc.
First Quarter 2023 Financial Results
May 4, 2023

Presenters
Matt Barnard, General Counsel
Eric Salzman, Chief Executive Officer
Mark Herndon, Chief Financial Officer

Q&A Participants
Matt Burmeister – Private Investor

Operator
Greetings and welcome to the Safeguard First Quarter 2023 Earnings Conference Call.

At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation.

If anyone should require operator assistance during the conference, please press "*", "0" on your telephone keypad. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Matt Barnard. Please go ahead.

Matt Barnard
Good afternoon and thank you for joining us for this presentation of Safeguard Scientifics First Quarter 2023 Financial Results.

Joining me on today's call and webcast are Eric Salzman, Safeguard's Chief Executive Officer, and Mark Herndon, Safeguard's Chief Financial Officer.

Following our prepared remarks, we will open up the call to your questions.

As always, today's presentation includes forward-looking statements. Reliance on forward-looking statements involve certain risks and uncertainties, including, but not limited to, the uncertainty of the outcomes of corporate strategic transactions, if any; the uncertainty of the future performance of our companies; our ability to make good decisions about the monetization of our companies; the ongoing support of our companies; our inability to adequately control our companies; fluctuations in the market prices of any of our companies that are publicly traded; and the effect of regulatory and economic conditions generally and other uncertainties described in our filings with the SEC.

Many of these factors are beyond our ability to predict or control. As a result of these and other factors, our past financial performance should not be relied on as an indication of future performance. During the course of today's call, words such as expect, anticipate, believe and intend will be in our discussion of goals or events in the future.

Management cannot provide any assurance that future results will be as described in our forward-looking statements. We encourage you to read Safeguard's filings with the SEC, including our Form 10-Q, which describes in detail the risks and uncertainties associated with managing our business. The company does not assume any obligation to update any forward-looking statements made today.

With that, I would now like to introduce Eric.

Eric Salzman
Thanks, Matt. Thanks for joining us this afternoon for our Q1 2023 earnings call.

The macro challenges we highlighted on our last two earnings calls relating to a more difficult capital raising and M&A environment continue to impact many of our companies. Given that, we thought it would be helpful to categorize the portfolio into two different buckets.

Bucket 1 contains our four companies that are funded, growing and executing on their business plans, albeit in a more difficult environment.

Bucket 2 includes three companies that are facing near-term leverage and liquidity issues, which could, adversely, impact the values that are recoverable to Safeguard. Additionally, one company sits between these two categories, and while it will require additional funding and operational adjustments, it is not facing the same near-term challenges as the three companies in Bucket 2.

Bucket 1 includes Clutch, Moxe, meQuilibrium and Prognos. We expect these four companies to continue to make progress, and our plan is to exit in the ordinary course, over the next two years. Those exits are expected to represent the vast majority of proceeds to Safeguard.

The three companies in Bucket 2 are facing critical challenges stemming from high debt loads, elevated burn rates and/or limited M&A interest. These challenges have become more difficult over the past two quarters, as the financing and M&A environment has weakened.

While the operating performance of Bucket 2 companies is mixed, the main factors creating their issues are leverage, liquidity runway and burn rates.

As we've highlighted on last quarter's call, this profile of company is extremely difficult to finance or sell in the current environment.

For each of our Bucket 2 companies, we are actively working with our co-investors and senior lenders to find a path to address leverage and liquidity challenges, with the goal of preserving our ownership interests and achieving recovery value.

We continue to explore all types of approaches to extract value from these positions. There are no assurances that we will be able to achieve this goal for Bucket 2 companies, and we have reduced our expectations of exit proceeds, recognizing that the proceeds to Safeguard could be de minimis.

Note that we expect the outcome to these situations to be known over the next four months, and we will update investors, accordingly.

As described in our press release, we deployed $3 million in a financing round for Prognos, which closed in April. The financing positions the company well to execute on its business model, and we were joined by both new investors, as well as existing ones who see the attractive business opportunity to use real-world data to drive better health care outcomes.

Prognos' platform is used by over 70 life science customers to accelerate the development of new drugs, improve the safety and efficacy of existing drugs and identify new patient populations that may benefit from specific treatments.

This capital should fund the company to cash flow breakeven and further details about this financing will be released by Prognos in the near future.

Let me now address a question we received from several investors regarding Safeguard's cash balances and stock buyback plan. We had nearly $19 million in cash at the end of the first quarter, almost $16 million after the Prognos deployment. We have estimated our follow-on deployments for the remainder of the year at zero to 1.5 million and our OpEx is stable at its current level. This means we will likely have excess cash beyond what we expect to need to operate and run off the portfolio.

As disclosed in our press release, we completed our $3 million stock buyback plan, this past quarter. We approved the plan in March 2022, prior to the start of the Houlihan Lokey process because we had an open trading window.

Since that time, the trading window for us has been closed, due to the Houlihan Lokey discussions, so we have been unable to expand the existing $3 million buyback plan or establish a new buyback plan.

As it relates to the Houlihan Lokey time line, as we indicated on the last earnings call, we expect to announce a decision on the process between June and December of this year. At the conclusion of that process, we will reevaluate ways to return excess cash to our shareholders through buybacks or dividends. In the meantime, we will use our cash resources, sparingly and judiciously.

I'll now provide an update on portfolio, M&A and exits. We have two active M&A situations in the portfolio. One of our companies launched a sale process earlier in the year and has received several non-binding initial indications of interest. Those interested parties are currently performing further diligence and have been asked to submit letters of intent in the next few weeks. While it is still early to handicap the odds of the deal happening, if one were to move forward, it could close in Q3 or Q4.

Another M&A process we mentioned on last quarter's call involved one of our companies that has been in discussions for a stock-for-stock merger. The parties continue to work on this deal, but the timing has extended from the original time line, and terms are likely to be modified.

We are hopeful we can agree on terms acceptable to both sides, but there is no assurance a final deal can be agreed to.

Note that neither of these companies are in Bucket 2.

There is also ongoing M&A and capital raise activity at some of the Bucket 2 companies, as part of their restructuring efforts.

Let me talk about our strategic process. On our strategic process, we are in exclusive discussions with one counterparty. While we cannot go into too much detail at this time, the goal of the transaction is to enable the vast majority of exit proceeds from the portfolio, the flow to our current shareholders, to reduce our operating expenses and to gain scale.

We are in the structuring and diligence phase, so there can be no assurance that a deal will be reached. This transaction, should it move forward, would be subject to Safeguard shareholder approval.

I'll now provide some company highlights. The Q1 highlights that we discuss today relate to our Bucket 1 companies. Note that these are not exhaustive and do not reflect all the risks inherent in these venture-stage companies.

Moxe increased the number of live connections to its health care providers by 49% in Q1 2023. Its Q1 revenues per health care provider site is up 142%, year-on-year, and the company was issued its first patent.

meQuilibrium exceeded planned revenues and EBITDA targets for Q1. Its Q1 2023 revenues were up 28% year-on-year, its EBITDA loss was reduced by 70% year-on-year and operating cash flow improved by 51%.

For Prognos, the biggest highlight is the funding round that we mentioned earlier.

On the business side, 100% of the business has pivoted to the marketplace model. The company Ts executing to plan and is on track to nearly triple its bookings for 2023.

Clutch's Q1 total revenues were up 54% year-on-year and recurring revenues were up 30%, year-on-year. In Q1 2023, the company added nine new customers and onboarded five new customers.

Now, let me comment on public comps and trading multiples. We regularly track the revenue multiples and revenue growth of our publicly traded peer companies to help investors triangulate on what some of our companies could be worth, using these same metrics.

Given the bucketing of the portfolio that we described at the outset, we believe that these trading data points are relevant for the five companies, which are not in Bucket 2. For the Bucket 2 companies, given their situations, traditional valuation metrics do not apply.

As of April 25, our tech-enabled health care peers were trading at 3.6x 2023 consensus revenue and 3.5x 2024 consensus revenue.

2023 consensus revenue growth for these tech-enabled health care peers was 11% with 12% consensus revenue growth for 2024.

As of April 25, the marketing technology peers, which is relevant for Clutch, were trading at 2.8x 2023 consensus revenues and 2.6x 2024 consensus revenues. 2023 consensus revenue growth for these marketing technology peers was 10% and 13% consensus revenue growth for 2024. Note that this data has not changed much from our Q4 2022 call.

At this time, I will hand it over to our CFO, Mark Herndon.

Mark Herndon
Thanks, Eric. Safeguard's net loss for the quarter ended March 31, 2023, was $3.5 million, or $0.22 per share, as compared to the net loss for 2022's first quarter of $6.7 million, or $0.40 per share.

As we disclosed last quarter, we completed the remaining purchases under the $3 million 2022 share repurchase plan during the quarter by acquiring about 25,000 shares, earlier in January.

In total, the 2022 repurchase program repurchased 736,577 shares at an average price of 49 per share.

Safeguard ended the quarter with 18.8 million of cash, cash equivalents, restricted cash and marketable securities. We continue to have no debt obligations. Our general and administrative expenses were 1.2 million for the first quarter of 2023 and 2022 on a rounded basis. The year-over-year decrease was 4%.

Similarly, corporate expenses for the quarter, which represent general and administrative expenses, excluding stock-based compensation, severance expenses and nonrecurring and other items, were $0.8 million on a rounded basis for each of the first quarters of 2023 and 2022. The year-over-year decline was 6.4%, there.

We continue to expect that quarterly level of corporate expenses have stabilized at this approximate level.

With respect to our ownership interest, we have an aggregate carrying value at March 31, 2023, of 12 million, as compared to $15.4 million at December 31, 2022. This quarter's activity is limited to the application of equity method accounting, which generally reduces our carrying value, based on our share of the losses of our companies.

Our reported share of the losses of our equity method of interest for the three months ended March 31, 2023, was 2.6 million, as compared to 3.9 million for the comparable period in 2022. This decrease is largely the result of several companies reaching zero carrying value. At that point, we generate fees for recording losses from that entity.

I would also like to remind everyone that we report our share of the losses from the equity method companies on a one quarter lag. So, this quarter's share of the losses reflect the fourth quarter of 2022.

Also, with respect to our ownership interest, the third-party debt of this group of eight companies was approximately $226 million versus $209 million in this 2022 year-end. This increase is primarily related to one of our companies accessing line a of credit that had previously been established at Silicon Valley Bank.

Cash at the same group of eight companies has decreased to about 59 million from 71 million, last quarter. This decrease primarily related to the quarterly burn at a couple companies.

In terms of revenue performance, we reported an 8.9% increase in this group of eight companies for the trailing 12-month period ended December 31, 2022, due to the one quarter lag. We continue to see our fastest growth from Moxe and meQuilibrium.

Now it's time first to turn it over to the Q&A segment of the call. So I'll ask the operator to open up the lines for questions.

Operator
Thank you. We will now be conducting a question-and-answer session. If you would like to ask a question, please press "*', "1" on your telephone keypad. A confirmation tone will indicate your

line is in the question queue. You may press "*', "2" if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset, before pressing the star keys.

One moment, please, while we poll for questions. Once again, if you would like to ask a question, please press "*', "1" on your telephone keypad.

First question comes from Matt Burmeister (ph), a Private Investor. Your line is live.

Matt Burmeister
Hi, the June to December decision time line, what was that in regards to again?

Eric Salzman
The June to December time line is the announcement on the Houlihan Lokey strategic process that we've been working on.

Matt Burmeister
Okay. Is that separate from this recent update about the single counterparty in this advanced discussion? Is that separate from Houlihan Lokey process, or are they one and the same?

Eric Salzman
They are one and the same. The Houlihan Lokey process has resulted in us, as we described, entering into an exclusivity agreement where we're having discussions with one counterparty. And the outcome of those discussions and the overall process with Houlihan Lokey will be announced between-sometime between June and December of this year.

Operator
Thank you. There are no further questions, at this time. I would like to turn the floor over to Eric Salzman for closing remarks.

Eric Salzman
I do believe we got a web question, Matt, you want to go ahead and ask it?

Matt Barnard
Sure. The question from the web is, for the strategic process, you mentioned gaining scale as a possible beneficial outcome of the current transaction being discussed. Can you explain why that would be a goal for the company?

Eric Salzman
Sure. So, gaining scale could be a goal or an advantage for the company and its shareholders for a couple of reasons. First of all, greater scale could generate greater trading volume for the stock as our trading volume has declined dramatically over the past year. So that's one benefit that could be gained through scale.

The second is that scale would help amortize the operating expenses over a bigger base because, as we've spoken about in the past, there's a fixed amount of operating expenses to manage the portfolio and to operate as a public company, so a larger scale would help share those costs across a larger operation or a base of assets.

Matt Barnard
Okay. Our next question from the web. There was a recent announcement that MediaMath has put itself up for sale. Can we reasonably expect to receive anything or should we expect not to get anything?

Eric Salzman
So, we're really not at liberty to comment on their specific M&A process. I think for the purposes of our internal purposes, we're not ascribing much value to MediaMath. It is possible that a successful M&A outcome, if it were to happen, could result in something, but we're not factoring it in, internally, as anything more than de minimis.

Matt Barnard
Next question from the web. What are the four companies in Bucket 1 again?

Eric Salzman
Sure. So those companies are meQuilibrium, Moxe, Prognos and Clutch. That was our last question from the web.

Operator
Okay, We do have a follow-up question from Matt Burmeister. Matt, your line is live.

Matt Burmeister
Yeah, so the single counterparty, it says in the announcement that they're in advanced discussions. It seems like it's a little further along based on that announcement. How come such a slight time window from June to December; that seems like a pretty long time window?

Eric Salzman
So, the discussions are underway and we’re working as expeditiously as possible to get to an adoption, if there is one that is doable and that we think would be superior for our shareholders than just a runoff plan. The transaction would also, as I mentioned, require Safeguard shareholder approval.

So, there are a number of things involved in both--on the diligence side with the counterparty, on the structuring side, addressing tax issues and then determining what the implications are for us to go and get shareholder approval. So, that's the reason for the time frame from--it's May now, so from June to December is kind of between one month--one month and call it, six months.

Matt Burmeister
I'm a little confused how you guys are talking about we're going to get--achieve scale from this transaction. I'm not following what that plan looks like.

Eric Salzman
Yeah, well, we haven't given too much detail as you can understand, given that we are under an exclusivity agreement and are doing work. We just wanted to highlight some of the goals and objectives that we would be looking to achieve from a transaction.

If we get to a point where a deal has been signed, we, of course, will share with the investors and our shareholders, all the benefits and advantages of that transaction, as well as any risks that are associated with that transaction.

Matt Burmeister
Alright, best of luck.

Operator
Thank you. I'd like to turn the floor over to Eric for any closing remarks.

Matt Barnard
Eric, we have one more question from the web, had asked, can you please elaborate about the company that is not in either bucket?

Eric Salzman
The company that is not in either bucket. So I think what we--again, a lot of these companies are obviously quite fluid, as you've seen over the last two or three quarters. The one company that is neither in Bucket 1 or Bucket 2, we are working to get it into Bucket 1, let's put it that way. But that is a process that's underway.

The company, as I mentioned, will need additional capital. It will also need some operational changes and some cost cuts. So, that is a project that we're working on together with the other investors, the management team and the lender to try to achieve an outcome for that company that we move it into Bucket 1.

Operator
Next question from the web. Could you talk to how you were evaluating the Bright Health from the end of 2021 when the lockup ended, until the time that you sold it?

Eric Salzman
Yeah, I can make some comments and Mark may have something also to add to it. So, when the lockup ended, the stock of Bright Health was $3 and change. It was obviously down from the $18 IPO price with a top-tier investor group management team and an interesting business

model that would use technology to help lower the cost and improve the efficiency in the insurance market, both for Medicare Advantage, Obamacare and other--ACA and other areas. So, the company had significant opportunity, and we followed the company each quarter.

We had a--as we may have called out, at some point, the company had a capital need. We addressed that capital need--we were looking at that and other catalysts for the stock to go higher.

We evaluated the performance each quarter and like anything from the investing standpoint, you can't look in the rearview mirror. At the point in time that we decided to sell our position, we had concluded that the company and the management team were not going to deliver on any of the requirements or the objectives that we were looking for to achieve our target exit price. So at that time, we look to exit the position in the market.

I don't know, Mark, if there's anything more you'd like to add to that?

Mark Herndon
Yeah, I was just going to reiterate the vast majority, I think the percentage was something like 85% on the decline happened during the restricted phase. And then the other aspect of this is, we didn't have immediate cash needs throughout the year, right. So we weren't--we had sufficient cash resources already, throughout the year. So we were able to make the investment decision as Eric laid out, throughout the year.

Matt Barnard
Okay. And that was our last question from the web.

Eric Salzman
Okay. Thank you all for joining us on the call today. Please contact us if you have any follow-up questions. Thanks very much. Have a nice evening.

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