

Mossberg's Investor Digest

Best Idea Profile

Safeguard Scientifics, Inc. (NYSE:SFE)

DESCRIPTION:

Headquartered in Pennsylvania, and incorporated in 1953; Safeguard Scientifics, Inc. builds value in growth-stage technology and life sciences businesses by providing partner companies with capital and a range of strategic, operational and management resources. SFE's strategic vision is to be a preferred catalyst for creating great companies, and to generate minimum risk-adjusted, cash-on-cash returns of 3x to 5x. Safeguard's focus is on companies with capital requirements of up to \$25 million that operate in two sectors: *Technology* — including companies focused on healthcare information technology, financial services technology and internet/new media businesses that have recurring or transactional revenue models; and *Life Sciences* — including companies focused on molecular and point-of-care diagnostics, medical devices/regenerative medicine, specialty pharmaceuticals and healthcare services.

KEY INVESTMENT CONSIDERATIONS:

Investing in Growth Markets — The Life Sciences Group currently targets companies with products or technology-enabled service business models and companies in the molecular and point-of-care diagnostics, medical device, regenerative medicine and specialty pharmaceutical markets. The Technology Group currently targets companies with recurring revenue, transaction-based or software as a service business models and companies in the internet/new media, financial services IT or healthcare IT. In contrast to many sectors of the post recessionary world these areas should continue to provide dynamic growth investments for operating investors such as Safeguard.

Diversification into Early Stage Companies — Most investors have very little exposure to venture or "Early Stage" companies. Safeguard offers investors exposure to a diversified portfolio of investments in this sector. Safeguard currently has 17 active partner companies including 10 in life sciences and 7 in technology.

Partner Capital and Financings — Many investors in early stage companies closely monitor the cash position and have to worry about the investment running low on cash. They also have to worry about company managements obtaining cash on unfavorable terms for investors from investment bankers. Safeguard has the expertise and capital to run much of this for partner companies thereby eliminating a substantial amount of risk.

Exit Strategies — The Macro environment for IPOs and M&A activity was sequentially lower in 2Q10 over that of the first. Nonetheless, SFE sees solid potential for exits over the next year. In any event, its strong financial position allows it to pick the most attractive time to execute on such transactions.

Strong Recent Revenue Results — For 2Q10, SFE reported aggregate revenue for partner companies increased 47% on a y-o-y basis to \$92MM. Aggregate partner revenues also increased for 1H10 to \$177MM, a 45% increase over the same time period last year.

Clariant — Clariant (Nasdaq:CLRT) is one of SFE's partners and is approaching sustainable profitability. Rev in '09 was \$92M, an increase of 24% from '08. SFE currently has beneficial ownership of 31MM shares. The common shares alone are worth nearly \$100 million. Therefore Safeguard has a large investment in a fast growing and mature company for future monetization.

VALUATION:

With its position in CLRT valued at over \$100 million (based on a recent market price of \$3.39 per share) the Street is giving little value to the company's positions in its 16 other active partner companies. Properly evaluating Safeguard's other partners could produce much higher valuations, perhaps as high as \$20+ per share.

(NYSE: SFE)

Investment Data (as of 9/30/10)

Recent Price	\$12.53
52-Week Range	8.60 - 14.35
Fiscal Year End	Dec
Shares Outstanding	21MM
Average Trading Volume (3 mos)	80,871
Market Capitalization	257MM
Cash & Equivalents	91MM
Long Term Debt	76MM
Enterprise Value (EV)	242MM
LT Debt/ Equity	0.27x
BV/ Share	\$8.80
TTM Revenue	NA
P/ Revenue	NA
FY11 EPS (estimate)	(\$1.15)
P/ EPS	NA
TTM EBITDA	(\$17MM)
EV/ EBITDA	NA

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