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MARKET STATISTICS (12/31/2017)

Exchange / Symbol	NYSE: SFE
Price:	$11.20
Market Cap (mm):	$228.6
Enterprise Value (mm):	$270.3
Shares Outstanding (mm):	20.41
Insider Ownership (%):	1.7%
Volume (3 month avg):	117,253
52 week Range:	$10.65 - $14.40
Industry:	Asset Management

CONDENSED ASSETS/LIABILITIES

($mm, except per sh data)	12/31/2017
Cash & Cash Equivalent:	$25.20
Cash/Share:	$1.23
Portfolio at FV:	$320.5
Total Debt:	$85.81
Net Assets:	$176.46
Net Assets/Share:	$8.64

LARGEST SHAREHOLDERS

First Manhattan Company	1,611,837
BlackRock, Inc.	1,575,085
Ariel Investments, LLC	1,501,367
T. Rowe Price Group, Inc.	1,281,401
Dimensional Fund Advisors LP	1,113,799

STOCK CHART

COMPANY DESCRIPTION

Safeguard Scientifics, Inc. (NYSE:SFE) is a publicly traded private equity and venture capital firm that provides growth capital to early stage businesses. Safeguard has a noted track record of cultivating innovation and building market leaders that spans more than six decades. Safeguard provides the relevant expertise and capital to fuel the growth of technology-driven businesses in financial services, digital media and healthcare. Safeguard targets companies that utilize the next wave of enabling technologies with a particular focus on the Internet of Everything, enhanced security and predictive analytics. Safeguard is a proven partner for entrepreneurs looking to accelerate growth and build long-term value in their businesses.

SAFEGUARD ANNOUNCES CHANGE IN STRATEGY AND OPERATIONS

Safeguard Scientifics' Board of Directors and management announced their decision to change the Company's overall strategy and direction. Following extensive review and consideration of all options to increase shareholder value Safeguard will be implementing several significant changes going forward.

First, Safeguard will no longer deploy capital into any new prospective portfolio companies. Safeguard is going to exclusively focus on supporting current existing partner companies and maximizing monetization opportunities with the end goal of distributing net proceeds of exits to shareholders after satisfying the upcoming debt obligations and various working capital requirements.

Safeguard will explore different avenues to exit partner companies including the sale of individual companies, the sale of certain interests in secondary market transactions, combinations of the two and other options.

In addition to the other initiatives, Safeguard announced it will be instituting cost saving efforts to save between $5 and $6 million annually. These savings represent changes in Safeguard's personnel and operating cost requirements under the new strategy. Stephen Zarrilli, President and CEO, believes that Safeguard will also "realize additional savings over time as assets are monetized and resource needs are further decreased."

Corporate expenses were $16 million (excluding interest, depreciation, and stock-based compensation) in 2017, so this initiative represents an effort to reduce expenses by between 31% and 37.5%. The Company announced that the shift in strategy will result in the termination of certain employees. Thus, Safeguard expects to recognize a charge of $1.3 million in the first quarter of 2018 in connection to the terminations. The $1.3 million will likely be paid out in cash over the next year.

With all things considered, these operational changes should be beneficial to shareholders and help to close the gap between Safeguard's stock price and true underlying value. As Safeguard begins to liquidate their portfolio holdings (which we estimate will be completed in roughly 36-60 months), the exits should serve as a catalyst to narrow the discount to the Company's true NAV, representing significant upside from the Company's current valuation.

To gain a clearer view of the potential impact on Safeguard's valuation, in Exhibit 1 (on page 4), we have provided three scenarios, applying multiples of 1.8x, 2.0x and 2.0x (adjusted) the Company's initial purchase price of its portfolio positions resulting in potential cash-on-cash returns from position exits. Using a conservative discount rate of 20% and estimating exit dates for each partner company based on their revenue stage and other news, we derived a net present value for each portfolio Company. For one of the Company's "high-traction" revenue stage companies (MediaMath), we adjusted the multiple to estimate their potential near-term exit multiple more accurately. It should be noted that Transactis also received an increased multiple, in light of their past financing coming at a 2x valuation of initial investment. Syapse and Spongecell both received adjusted multiples, as well, due to an up-round financing and a positive merger, respectively.

The new strategic direction for Safeguard still presents a number of potential hurdles. Much like the previous strategy, Safeguard's new strategy's success is contingent upon the Company's ability to generate timely and successful exits. Safeguard has struggled over the past 18 months with exiting portfolio companies at a regular pace. With the decision to stop deploying capital into new partner companies, Safeguard will be able to focus more exclusively on generating successful exits with greater frequency.

In addition to general operational challenges, Safeguard has $41 million in 5.25% convertible debentures coming due May 2018. As the deadline rapidly approaches, Safeguard must satisfy this overhang in a non-dilutive fashion in order to successfully follow through on the new strategic plan to maximize shareholder value.

Due to the nature of Safeguard's business model, there are inherent risks with investing in early- and growth-stage companies. Many of Safeguard's partner companies are not in mature stages of business, meaning many are not currently profitable and are still growing. Due to a variety of internal and external factors, partner companies may experience difficulties stemming from inadequate growth, unsustainable growth, inability to attain market share, loss of intellectual property, highly competitive business environments, shifting economic landscapes and government regulations. In addition, since Safeguard holds minority positions, there is a limited amount of influence the Company has on each partner company. This exposes Safeguard to risks associated with a given partner company's business decision making.

Despite the inherent risks involved both with Safeguard's overall business and recent strategic changes, we still believe there is significant upside and that the strategic changes should serve to narrow the discount to Safeguard's true value.

SAFEGUARD FOURTH QUARTER AND FULL-YEAR 2017 UPDATE

Aggregate partner company revenue for 2018 is projected to be between $475 to 500 million, up from $410 million in 2017 for the same partner companies. Safeguard's partner companies continue to generate strong momentum going forward, illustrated in part by 5 of said companies graduating up Safeguard's revenue stage ratings scale.

Subsequent to the close of 2017, Spongecell agreed to merge into privately held Flashtalking, a global platform for digital advertising management and analysis. Safeguard now holds a 10% equity position in Flashtalking.

As of December 31, 2017, Safeguard wrote off their position in initial revenue stage partner company, Full Measure Education, recognizing a $7 million impairment charge. This was based on Safeguard's decision not to continue to deploy follow-on capital into the company in the absence of significant capital being raised from new investors.

On February 20, 2018, Safeguard adopted a tax benefits preservation plan to protect valuable tax assets. The plan is designed to preserve Safeguard's ability to use its approximately $253 million of pre-tax federal NOLs that could be utilized to offset future taxable income and reduce federal taxable income liability in certain circumstances. Safeguard's ability to utilize these NOLs would be greatly limited by an "ownership change" as defined under Section 382 ("five-percent shareholders") collectively increase their aggregate ownership in Safeguard's overall shares outstanding by more than 50 percentage points. This plan should help ensure that the NOLs can be utilized to the fullest, going forward.

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VALUATION

Safeguard actively manages a large portion of the partner companies in their portfolio, and as such, the Company is classified as an "operating company." Most publicly-traded BDCs are classified as "investment companies" under the 1940 act, allowing them to "mark to market" their holdings quarterly. The valuations of Safeguard's investments are represented by their "carrying values," which are calculated by taking the cost of investment plus or minus their share of investee income or loss, respectively. It is common for early- and growth-stage tech companies to incur operating losses, resulting in the decrease of the estimated carrying value of Safeguard's investments. Valuations increase as partner companies begin to grow, but the carrying value generally stays below cost. The accounting methods that Safeguard use are the cost method and the equity method. As a result, Safeguard's book value is understated compared to a valuation method employed by other venture capital and private equity firms.

We believe the cost/equity method of accounting does not properly reflect the fair value of Safeguard's investments for the following reasons:

- The Company has provided revenue guidance of their partner companies of between \$475m and \$500m for 2018
- Revenue growth rate of their partner companies has been ~25% CAGR of the past five years
- The Company's average holding period for their portfolio companies is ~4.3 years

Safeguard trades at a significant discount to its peer group. We believe this is largely due to the irregularity of gains over the past few years which Safeguard only recognizes at the holding company level when they exit a position in a partner company. In the past 18-24 months, the Company has not exited portfolio positions at a pace that investors have expected. Management is continually seeking to monetize their holdings and redeploy the capital into new opportunities. With two exits in 2017, Safeguard is heading in the right direction, in terms of frequency, but the exits have come in lower than Safeguard's targeted return rate (2x CoC). With Safeguard no longer focusing on deploying capital into new partner companies, we believe they will have more success and frequency in exits.

Valuation Analysis

Sum of the Parts

We believe applying a sum-of-the-parts analysis is a more accurate way to value Safeguard. In the Sum-of-the-Parts analysis, we have provided three scenarios, applying multiples of 1.8x, 2.0x and 2.5x the Company's initial purchase price of its portfolio positions resulting in potential cash-on-cash returns from position exits. It is common for technology growth companies to trade at 4-5.5x. Using a conservative discount rate of 20% and estimating exit dates for each partner company based on their revenue stage and other news, we derived a net present value for each portfolio Company. For one of the Company's "high-traction" revenue stage companies (MediaMath), we adjusted the multiple (to 4.3x) to estimate their potential near-term exit multiple more accurately. It should be noted that Transactis also received an increased multiple (of 3.5x), in light of their recent financing coming at a 2x valuation of initial investment. On June 6, 2017, Trice Medical announced that it closed a \$19.3 million Series C financing, with Smith & Nephew, a global medical technology business, taking a minority stake with current investors. While we have not made any changes to the model as a result, this strategic partnership with a large player in the medical technology field could be beneficial in the future. The increased valuation for the follow-on capital raise suggests that the company is steadily growing and may receive a higher valuation in the future. On November 14, 2017, Syapse raised \$30 million in Series D financing. This represented a raised valuation, represented in an augmented multiple in our model. Subsequent to the close of 2017, Spongecell agreed to merge into privately held Flashtalking, a global platform for digital advertising management and analysis. Safeguard now holds a 10% equity position in Flashtalking. Steve Zarrilli stated on the call that Flashtalking is more than 3x larger than Spongecell. Spongecell's multiple has been adjusted accordingly. Our sum-of-the-parts valuation suggests that Safeguard is significantly undervalued in all three scenarios. Additionally, Safeguard currently has NOLs and capital loss carryforwards of \$253 million to offset future gains.

Summary

We believe Safeguard's current market cap of \$\$228.6m (Enterprise Value of \$270.3m) does not accurately reflect the true value of the Company. Other public investment companies (private equity firms and BDC's) trade at a multiple of between .9x – 1.4x net asset value (NAV). Safeguard's peer companies mark-to-market quarterly to reflect the current value of their portfolio positions more accurately. Safeguard's stated objective is to exit all portfolio positions over the next 36 - 60 months. This should serve as a catalyst to narrow the discount to the Company's true NAV representing significant upside from the Company's current valuation.

STONEGATE CAPITAL PARTNERS

Exhibit 1: Sum-of-the-Parts Analysis

							Low		Medium		High					
	Stage	**Category**	**Acquisition Year**	**Primary Ownership%**	**Cost**	**Carrying Value**	**Estimated Exit Value (1.8x)**	**Estimated CoC Return**	**Estimated Exit Value (2.0x)**	**Estimated CoC Return**	**Estimated Exit Value (2.0x adj.)**	**Estimated CoC Return**	**Estimated Exit Date**	**Estimated NPV * (2x)**	**Estimated NPV * (2.5x)**	**Estimated NPV * (3x)**
Technology:																
AdvantEdge Healthcare Solutions	High Traction	Healthcare	2006	40%	16.3	$4.7	29.3	1.8x	32.6	2.0x	32.6	2.0x	2018	24.5	27.2	28.0
MediaMath	High Traction	Digital Media	2009	20.5%	25.5	3.0	89.3	**3.5x**	89.3	**3.5x**	109.7	**4.3x**	2018	74.4	74.4	94.2
Spongecell	High Traction	Digital Media	2018	23%	18.6	6.0	40.9	**2.2x**	46.5	**2.5x**	55.8	**3.0x**	2018	34.1	38.8	47.9
NovaSom	High Traction	Healthcare	2011	32%	24.1	2.0	43.4	1.8x	48.2	2.0x	48.2	2.0x	2018	36.2	40.2	41.4
Aktana	Expansion	Healthcare	2016	25%	9.7	4.1	17.5	1.8x	19.4	2.0x	19.4	2.0x	2018	14.6	16.2	16.7
Apprenda	Expansion	Other	2013	29%	22.1	7.8	39.8	1.8x	44.2	2.0x	44.2	2.0x	2019	27.6	30.7	38.9
Clutch Holdings	Expansion	Digital Media	2013	43%	16.3	8.5	29.3	1.8x	32.6	2.0x	32.6	2.0x	2018	24.5	27.2	28.0
Lumesis	Expansion	Financial Services	2012	44%	6.3	1.6	11.3	1.8x	12.6	2.0x	12.6	2.0x	2019	7.9	8.8	11.1
Prognos (fka Medivo)	Expansion	Healthcare	2011	29%	12.6	8.9	37.8	**3.0x**	37.8	**3.0x**	44.1	**3.5x**	2018	31.5	31.5	37.9
QuanticMind	Expansion	Digital Media	2015	25%	11.5	7.3	20.7	1.8x	23.0	2.0x	23.0	2.0x	2020	12.0	13.3	20.7
Sonobi	Expansion	Digital Media	2015	22%	9.2	6.3	16.6	1.8x	18.4	2.0x	18.4	2.0x	2018	13.8	15.3	15.8
Syapse	Expansion	Healthcare	2014	20%	15.6	7.4	28.1	1.8x	31.2	2.0x	31.2	2.0x	2018	23.4	26.0	26.8
Transactis	Expansion	Financial Services	2014	24%	14.5	9.1	26.1	1.8x	29.0	2.0x	29.0	2.0x	2020	15.1	16.8	26.1
WebLinc	Expansion	Digital Media	2014	38%	14.0	7.1	25.2	1.8x	28.0	2.0x	28.0	2.0x	2020	14.6	16.2	25.2
Brickwork	Initial Revenue	Digital Media	2016	20%	4.2	3.5	7.6	1.8x	8.4	2.0x	8.4	2.0x	2018	6.3	7.0	7.2
Cask Data	Initial Revenue	Other	2015	31%	13.0	7.3	23.4	1.8x	26.0	2.0x	26.0	2.0x	2019	16.3	18.1	22.9
CloudMine	Initial Revenue	Healthcare	2015	47%	10.0	5.7	18.0	1.8x	20.0	2.0x	20.0	2.0x	2018	15.0	16.7	17.2
Hoopla Software	Initial Revenue	Digital Media	2011	26%	5.1	-	9.2	1.8x	10.2	2.0x	10.2	2.0x	2019	6.4	7.1	9.0
InfoBionic	Initial Revenue	Healthcare	2014	40%	19.7	1.1	35.5	1.8x	39.4	2.0x	39.4	2.0x	2019	24.6	27.4	34.7
meQuilibrium	Initial Revenue	Healthcare	2015	36%	10.5	5.5	18.9	1.8x	21.0	2.0x	21.0	2.0x	2018	15.8	17.5	18.0
Moxe Health	Initial Revenue	Healthcare	2016	32%	4.5	3.7	8.1	1.8x	9.0	2.0x	9.0	2.0x	2019	5.6	6.3	7.9
Propeller Health	Initial Revenue	Healthcare	2014	24%	14.0	6.4	25.2	1.8x	28.0	2.0x	28.0	2.0x	2018	21.0	23.3	24.1
T-REX	Initial Revenue	Financial Services	2016	21%	6.0	5.1	10.8	1.8x	12.0	2.0x	12.0	2.0x	2018	9.0	10.0	10.3
Trice Medical	Initial Revenue	Healthcare	2014	25%	10.2	3.9	18.4	1.8x	20.4	2.0x	20.4	2.0x	2019	12.8	14.2	18.0
Zipnosis	Initial Revenue	Healthcare	2015	25%	7.0	3.8	12.6	1.8x	14.0	2.0x	14.0	2.0x	2019	8.8	9.7	12.3
Total					**320.5**	**129.8**	**642.8**		**701.2**		**737.2**			**495.4**	**539.5**	**640.4**

Cumulative Present Value	495.4	539.5	640.4
Less: Total Debt	85.8	85.8	85.8
Less: Corporate Costs	10.0	10.0	10.0
Plus: Cash and Cash Equivalents	25.2	25.2	25.2
Implied Value	424.8	468.9	569.8
Shares Outstanding	20.4	20.4	20.4
Implied Share Price	**20.86**	**23.03**	**27.98**
Current Share Price:	11.20	11.20	11.20
Implied Discount:	**46.3%**	**51.4%**	**60.0%**

Source: SCP

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