Safeguard Scientifics, Inc.
Second Quarter 2022 Financial Results
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<u>**Presenters**</u>
Eric Salzman, CEO
Mark Herndon, CFO
Matthew Barnard, General Counsel

<u>**Q&A Participants**</u>
Neil Goldman - Goldman Capital Management
Jason Stankowski - Clayton

Operator
Greetings and welcome to the Safeguard's Second Quarter 2022 Financial Results Conference Call. At this time all participants are in a listen only mode. A question and answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press star zero on your telephone keypad. If you would like to ask a question, please press star one on your telephone keypad. As a reminder this conference is being recorded.

I would now like to turn this conference over to your host Mr. Matt Barnard, General Counsel. Thank you sir. You may begin.

Matthew Barnard
Good afternoon, and thank you for joining us for this presentation of Safeguard Scientifics second quarter 2022 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'll open up the call to your questions.

As always, today's presentation includes forward looking statements. Reliance on forward looking statements involves 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 unilaterally 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 used 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 describe 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 on our second quarter 2022 earnings call. This afternoon we would like to cover the following topics. We will provide some overview comments on the state of Safeguards portfolio companies. We will provide some color on the capital raising environment for our portfolio and our follow on deployment activity. We'll share an update on M&A activities in the portfolio. We'll share public market multiples that we use among other tools to value the portfolio. We'll provide some recent highlights on each company. And lastly, we'll provide an update on the Houlihan Lokey process. After my remarks, I will hand the call over to Mark Herndon, our CFO to walk you through the financials for the quarter and we'll then open up the call for questions.

State of the portfolio. I would highlight the capital raises at Syapse and Moxe, as among the more notable developments over the past quarter, with each company raising a significant amount of capital to support its growth. Syapse raised $35 million dollars from Nevada's capital, and inside investors. The capital helps support Syapse's continued commercial traction, partnering with leading community health systems to support precision medicine, and entering into life sciences partnerships with established biopharmaceutical companies.

Moxe raised $30 million in growth equity funding, led by Piper Sandler Merchant banking and Boutique Healthcare Venture capital firm Ventana Capital. The round also included participation by certain existing Moxe investors. The capital will support Moxe's rapid growth as it revolutionizes how information is shared between healthcare payers and providers and will promote the continued development of its advanced clinical data exchange solutions.

Q2 was an active and varied quarter across the portfolio with some companies showing strength, meeting or exceeding their quarterly projections, while others experienced softer bookings or revenues below plan. For those that experienced some softness in the quarter, reasons include supply chain shortages of key components or slower sales cycle and decision making by customers. What's encouraging is that pipelines remain strong and supply chain issues are being addressed.

On the profitability side, there has been a shift to a greater focus on profitability at each of our companies that began in Q1. This shift has accelerated in Q2 as boards and management teams have been working to bring operating expenses down and shorten the time and capital needed to reach breakeven. We believe this trend is also true for the overall venture capital community as VC funds are increasingly focused on cash runway and liquidity at their portfolio companies.

We speak to our CEOs and CFOs frequently many on a weekly basis and are actively involved helping them align their cost structures to the current demand and capital raising environment. The capital raising environment has changed over the past several months. Private debt capital has become more difficult to secure as treasury yields have widened, inflation has spiked, and global uncertainty continues. As an example, we have noticed that certain venture debt lenders are requiring equity or junior capital to come in as part of a debt financing. For venture capital investors, their focus, as mentioned earlier has centered on understanding the past cash flow breakeven and how much cushion is built into the plan.

So how does this impact the Safeguard portfolio? Many of our companies have secured the capital to either reach cash flow breakeven or reach what we believe is the next key valuation creation point. Syapse and Moxe were able to complete financings in the current environment as mentioned in our earlier remarks. Several of our other companies are exploring debt and equity raises to support their businesses. Among our portfolio companies, one is formally in the market, raising a growth equity round to fund itself to cash flow breakeven. We hope to close that financing in Q4 but there can be no assurances of that.

Two other portfolio companies are exploring capital raises as part of launching M&A processes to give them enough cash runway to complete a sale. We also mentioned on our Q1 call that one of our companies had been approached by a PE fund to preempt a broader capital raise process. That PE investor performed preliminary due diligence and liked what it saw, but wanted to wait for Q2 bookings to come in before deciding if they would proceed to the next stage.

Unfortunately, Q2 bookings came in softer than plan, which has put those discussions on hold. This company needed -- is an example of what I mentioned earlier, it posted record first half 2022 pipeline growth, but experienced a slower sales cycle and the deals while still in the pipeline have yet to convert into bookings.

Follow on deployments. To remind investors, our framework for follow on deployments in the portfolio is as follows. First, the standalone risk adjusted returns on the new money deployed must be attractive.

Second, at least two of the following three criteria must be met. One, participating in the round preserves Safeguard's influence and ability to drive an exit. Two, our participation is required to complete a larger financing. Or three, participating in the round is directly linked to the return on Safeguard's existing holdings in the company.

Note that we deployed $5 million year-to-date, including $2 million in prognose, $1.4 million in Clutch, and $1.6 million in Syapse in July. We did not participate in the Moxe financing because it did not meet the above criteria. Don't misunderstand this. We are even more excited about Moxe, posted (ph) this financing, and continue to be an active stockholder, board member, and supporter of the company.

As we look at the balance of 2022 and as we mentioned in our earnings release, given the macro conditions, as well as company specific developments, we could come in at the upper end of the $5 million to $9 million guidance for follow on deployments that we provided at the beginning of the year.

M&A. On our Q1 call, we disclosed that two companies were interviewing bankers as part of exploring M&A processes. During Q2, each of these companies selected their bankers, RBC for one company and Piper Sandler for another.

Each company and its advisors are completing internal prep work, and are planning to launch formal sale processes after Labor Day. While the M&A environment has become more difficult of late, both companies have strategic value to a number of larger companies and we hope that this will be borne out through the M&A process. However, it is much too soon to handicap how this will play out and we will update you accordingly.

Also, on our Q1 call, we shared that one of our companies received inbound interest from a strategic buyer. The parties have made significant progress towards a transaction, but a definitive agreement has not been signed yet. And there can be no assurance that the parties will reach a final agreement. While this company is not one of our larger positions based on expected exit value, if this deal were to close on the terms being discussed, it would still be an important transaction for Safeguard.

On a related note, from time to time, we get questions from investors about why it takes so long to sell companies. A typical timeline to sell a company would be as follows. There's approximately one to two months of prep work before the company's bankers would typically reach out to a wide list of potential buyers. There is another approximately two to three month process to solicit first round and second round bids. That is followed by another one to two months of negotiation between the parties and extensive diligence performed by the potential buyer covering everything from business, accounting, IT, technology, tax, legal, management contracts, etc.

In the background, the performance of the company during the sales process matters. Meaning if the company beats its numbers or misses its numbers during this multi-month period, it can have an impact on the deal.

Lastly, company culture and personalities play a non-trivial role in M&A transactions. Based on my direct experience with dozens of buy side and sell side transactions, a good rule of thumb is to plan for four to six months from launch to close. But of course, this could always be shorter or longer. For all of our portfolio companies active in M&A, Mark, Matt, and I are usually very closely involved with the companies from the banker selection stage through the definitive agreements.

Public market multiples. As we do each quarter, we provide the enterprise value to revenue multiples and consensus revenue growth rates of our public peers to help investors triangulate around potential valuations. Please keep in mind that this is only one of several valuation methodologies and should not be relied upon exclusively. There are differences in company size, growth rates, margins, net debt, capital structures, and liquidity discounts all come into play. Note that the following data is as of August 5.

For our tech enabled healthcare companies, the EV to '22 revenue multiples of our publicly traded peers were 3.8 times with consensus revenue growth for 2022 of 17%. This is essentially unchanged from our Q1 earnings call. For our single marketing technology position, the EV to 2022 revenue multiples for the peer group were 3.3 times with consensus revenue growth for 2022 of 15%. Essentially unchanged from a multiple standpoint from our Q1 call, but with a decrease in the estimated 2022 revenue growth which was 19% (ph) at the time.

Flat valuation multiples from Q1 to Q2 at first seem quite counterintuitive, given the major equity market corrections in both Q2 and in the first half of 2022. However, our public pure multiple data is calculated as of the week before earnings. So our Q1 multiples that we shared last quarter were from April 29 and today's are from August 5.

Between those two dates, the S&P was flat, the Russell 2000 was up 3%, our public healthcare peers were down 2%, our public mark tech peers were up 7%, and Safeguard stock was up 2%. Hence, there was no material change in the valuation metrics of the public peers from our last call to this call.

For 2022, we expect our portfolio companies in the aggregate to grow revenues in excess of 14% although company specific and macro conditions can impact this estimate. Mark will provide an update on aggregate cash and debt of the portfolio in his section.

I will now run through quick Q2 highlights for each of our companies focusing on their achievements since our last call.

Aktana beat its first half 2022 product bookings plan and added Novo, Nordisk, and Nestle as key new logos. For Syapse, we highlighted the $35 million financing round earlier in the call, and the company continues to achieve market momentum closing expansion deals with several top 10 pharma companies.

Prognos hired a financial advisory firm to assist it in exploring an equity raise. And it's signed five new data sources year to date for the marketplace, including entry into electronic medical record and rare disease testing. Trice educated and trained over 100 doctors through its med-ed strategy in Q2 and is seeing strength in its ECTRD carpal tunnel and BSC bronchoscopy product lines.

InfoBionic posted 10% year-on-year ARR growth, ARR stands for annualized recurring revenues, and 20% year-on-year growth in deployed devices. For meQuilibrium, contracted ARR was up 24% year-on-year and first half GAAP revenues were up 22% year-on-year. The company announced a significant product upgrade which includes new campaign functionality and real time access to data and analytics.

From Moxe we highlighted earlier in the call its $30 million financing. Year-on-year their live health care provider sites were up 95% and live connections grew to 3.5 times what they were in Q2 2021. At Clutch, its Pfizer partnership went live into production and is now processing certificates with 29 brands. The company continues to increase its footprint with NCR SMB and their white label product increasing to over 5,000 locations in use, and they completed full certification and launched a Microsoft partnership.

Lumesis has been a stable performer growing its customer base and improving its products. Again note that this is not a comprehensive assessment of each company and specific risks do apply to each name.

I would now like to say a few words about the Houlihan Lokey process. We announced the hiring of Houlihan Lokey in our Q1 2022 earnings release in order to help us explore a range of strategic alternatives for Safeguard. Our design objectives for the Houlihan Lokey assignment, are as follows.

If possible, find a go-forward business plan that can be attractive to shareholders and provide Safeguard shareholders superior per share value than what our current runoff plan is. Two, don't sell the assets below their fair value or natural exit values. And three, see if we can extract value for NOLs and our New York Stock Exchange listing or public shell that we can't otherwise achieve in a runoff plan.

Over the past three months or so, we've reached out to a large number of parties including venture capital, private equity, secondary private equity, hedge funds, family offices, operating companies, BDCs, and other financial institutions. We have begun to explore potential frameworks with a handful of groups around different structures that could meet our goals of providing superior value to Safeguard shareholders beyond our current plan.

Note that our discussions are at an early stage and we will continue to update you in subsequent earning calls. Of course, there's no insurance -- there is no assurance that we will be able to identify a transaction that meets these design objectives. And regardless, we continue to focus on all ways to maximize the value of the portfolio, reduce our operating costs, and return value to shareholders.

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

Mark Herndon
Thank you, Eric. Safeguard's net income for the quarter ended June 30, 2022 was $0.5 million or $0.03 per share, as compared to net loss for 2021 second quarter of $0.3 million or $0.02 per share. This quarter's results were primarily impacted by a $5.3 million non-cash dilution gain resulting from Moxe health raising capital during the quarter. The remaining results were fairly typical with respect to general administrative expenses and other aspects of equity income loss net.

We have continued our open market stock repurchases, resulting in the repurchase of approximately 221,000 shares during the quarter for $0.9 million or an average price of $4.27 per share. And subsequent to the quarter, approximately 40,000 additional shares have been accumulated during a low volume trading environment for approximately $0.02 million or $3.96 per share. This brings our total repurchases for this year to over 400,000 shares for approximately $1.9 million or $4.60 per share. We have approximately $1.1 million of authorization for open market (ph) purchases remaining pursuant to this planned program.

Safeguard ended the quarter with $17.5 million of cash, cash equivalents and restricted cash and we continue to have no debt obligations.

Our general and administrative expenses were $1.1 million for the second quarter of 2022, which is 42% lower than the $2 million reported in the comparable quarter of 2021. This decline was principally attributable to lower stock based compensation of $0.5 million and the absence of an LTF expense that did not recur in 2022.

Corporate expenses for the quarter, which represent general and administrative expenses, excluding stock based compensation, severance expenses, and non-recurring and other items such as LTF accruals and transaction expenses were $0.8 million as compared with $1.8 million in the comparable quarter of 2021, a 13% decline. On a sequential basis this quarter's corporate expenses were essentially flat for the last quarter, about $15,000 lower or 2%.

We continue to expect the level of -- the quarterly level of corporate (ph) expenses has stabilized at this approximate value. Also on the corporate expense measure continues to benefit from director fees being paid entirely in equity and a significant portion of management's compensation being paid in equity.

With respect to our ownership interest, we have an aggregate carry value at June 30, 2022 of $25.6 million as compared to $26.5 million at December 31, 2021. This year to date activity included increases for the funding of convertible loans at Prognos and Clutch that aggregated $3.4 million and a dilution gain of $5.3 million related to Moxe. These increases were largely offset by decreases due to the application of the equity method accounting across all of our companies.

Our share of the losses of our equity method ownership interest for the three months ended March 31, excuse me, June 30, 2022, was $3.9 million as compared to $5.4 million for the comparable period in 2021.

There were no significant exit events or impairments during the quarter. However, we did collect $0.1 million amount that will be reported as a gain on the sale of ownership interest that represents the collection of an escrowed amount from a prior transaction.

The quarter's decrease in equity method loss is the result of a lower level of losses at several companies due to a variety of events, including the limiting of loss recognition when our carrying value is reduced to zero.

I'd 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 share of losses reflect the first quarter of 2022.

Also with respect to ownership interest, the third party debt in this group of nine companies was approximately $161 million versus the $149 million at March 31, 2022. This increase is primarily related to one of our companies raising approximately $10 million of venture debt.

Cash at the same group of nine companies has increased to about $70 million from $62 million last quarter. This increase primarily related to the equity raise at Moxe, which was offset by quarterly burn at other companies. And for clarity, please note that these figures do not include Syapse capital, which was raised in July of '22.

In terms of revenue performance, we reported a 14.1% increase in our group of nine companies for the trailing 12 month period ended March 31, 2022, which is the TTM on a one quarter lag. We continue to see our fastest organic growth from meQuilibrium and Moxe. Trice now has a full year of operations from its 2021 acquisition of TENEX (ph) and has moved into the over $20 million revenue category that you will see on our table of the press release.

Now, it's time to turn it over to the Q&A segment of the call. So operator, I'll ask you to open up the lines for a few questions if there are any.

Operator
At this time, we'll be conducting a question and answer session. If you would like to ask a question, please press star one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star two to remove your question from the queue. For participants using speaker equipment, it may be necessary for you to pick up your handset before pressing the star keys. One moment while we pull for questions.

Our next question comes from the line of Neil Goldman with Goldman Capital Management. You may proceed with the question.

Neil, you may proceed with your question.

Neil, are you on mute?

Neil Goldman
Hello. Can you hear me? Hello.

Eric Salzman
We can hear you now.

Neil Goldman
I was on mute. So your carrying value was 154.4 in terms of the original investments. 19 seven (ph) was various, a lot of that MediaMath that you that basically is not important anymore?

Eric Salzman
Yes, yes. I think you're referencing the cost of the total deficits (ph) in the table in the press release 154 million. And yes, there have been no changes, actually from March 31, except for the cost of MediaMath is now included in the all others category.

Neil Goldman
And in terms of the raising of funds for the three companies last quarter, and then one in July, were they at the equivalent value or were they higher or lower than what you would carry on that?

Mark Herndon

So the Moxe equity raise, you may have noticed, like we recorded the $5.3 million dilution game. So that would indicate that the round was at a premium for our carrying value. And then we had other events that were at unpriced values. Eric, you want to fill in some gaps there for me?

Eric Salzman

Yes. So the financings that we participated in year-to-date were structured as inside convertible note rounds, which convert into, under certain circumstances, into the subsequent round, a price round, or achieve a certain contractual return if the company were to be sold before the company raised capital which -- so the short answer is that those financings did not have a price on it, a pre-money valuation. They had a basically a variable conversion price at a discount to the next round, if there were a next round, or a contractual return if the company were sold over a period of time. Is that clear?

Neil Goldman

Yes, it makes it clear. On the cash side, you had 17 five when you say your be at the upper end of the range of investment are you talking about additional potential four million at this point of investing in companies?

Eric Salzman

Yes, that would be the -- that would take us to the upper end of the range that we provided.

Neil Goldman

And from a cash burn standpoint, without any transactions or anything for the second half, what would be the cash burn from just learning the business and legal accounting all the rest?

Eric Salzman

Yes, and let me add a couple of things there. So if you're looking at the cash burn of the company on a quarterly basis, I think that corporate expense number is a good metric to start with. And then I'll emphasize our comments, including the word could for the deployments for the rest of the year. We continue to have a variety of circumstances and a few companies that may result in some deployment or no deployment whatsoever. So like we said, we were already at the bottom of the range, and there could be a couple other events the rest of the year.

Neil Goldman

Okay, so you'll end out the year was over $10 million in cash if nothing else happens at this point? Is that a fair statement? If you are making investment up to four and your cash burn on an operating basis is how much a quarter?

Eric Salzman

I think your math is pretty close there. I'm not -- I haven't done it completely in my head that as you've been talking, but yes, we have over 70 million now. And then we're spending less than a million per quarter. And it just depends on how much further investments we have.

Neil Goldman
Right. So I mean, yes, Michael would be slightly over 10 without any, any more buyback. Okay. All right. That's all I have at this moment. Thank you.

Eric Salzman
Thank you.

Operator
As a reminder, if you would like to ask a question, please press star one on your telephone keypad.

Our next question comes from the line of Matt Burmeister (ph) private investor, you may proceed with your question.

Matt Burmeister
Hi, thanks for taking my questions. The stock is at a 13 year low. And Warren Buffett famously says, when it's raining gold, grab a bucket, not a thimble. Why not decrease the minimum cash requirement to buy back a more substantial amount of shares?

Eric Salzman
I'll start and I'll let Mark go in. So we have set a, we call it a minimum cash, it's really a maximum cash like anything above $18 million we've stated we'd use to return to shareholders. We are updating that number each quarter mathematically as we get closer to an exit of all the assets. That number has to just decline over times. And we'll be discussing -- and we do discuss that with our board every quarter.

Right now if you take math -- Mark's math, we are below the $18 million threshold and still have an active share buyback plan in place with 1.1 million remaining on it. So while we haven't set a formal lower threshold above which we return capital, we effectively are returning capital below that threshold today through the share buyback.

Now, your question about buying more shares back, the volume of our stock, as you know, is quite limited. And in fact, the last 30 days average daily trading volume has been 11,000 shares. Our 10D51 (ph) plan buys the maximum allowed in the market on a daily basis. And that plan has been put in place.

Our ability to make any changes to that plan is a function of having an open window. So we needed -- we put that plan in place when we had an open window. We hired Houlihan Lokey. We need to get through that process to then determine if we have -- when we have another open window to consider increasing the size of that plan. We're doing something more. So it is definitely a topic where we're talking about capital allocation has been something that's been first and foremost since I took over this position. And we will continue to evaluate it and update you in subsequent quarters.

Mark, anything you want to add to that?

Mark Herndon
No, I mean, the only thing I would emphasize would be just the volume of the stock. So we're already -- as you said, we're already in the market buying back stock right now.

Matt Burmeister
Yes. So I guess, to help with the potential for further buyback, why not sell shares of Bright Health group, the 1.3 million shares?

Eric Salzman
Yes. So it's the same, I guess, follows well, from the same concepts and writing even if we have another dollar in the plan right now, there's only so many shares we can buy back given the volume of trading, but it is a potential source of funds in the future. We just haven't had that happen yes.

Eric Salzman
So the way that -- so Matt, the way that we would buy stock back, if we had extra cash would be either a 10-B5 plan, kind of set it and forget it plan, that we put in place, or self-tender, which we did. And that set it and forget it plan by the way, is both buying in the market and doing block sales. So Stiefel, our investment banker, every day, they're looking for blocks, and they're buying in the market. And then we get an update at the end of the day, how many shares we bought.

The other way to buy stock back and the way to do it in size is to do a self-tender which we did last year. To do a self-tender, you need a certain quantum or minimum amount of capital to have available to both launch the process, cover the operating, the legal, and administrative costs, filings, etc., just to make it all worthwhile. You also -- there's also sort of like you just can't do a self-tender every month or two. Matt can weigh in terms of what the periods are between doing self-tenders. So the self-tender we used it in the past. It is something that we will like look to again, once we have sufficient capital to execute upon it.

Matt Burmeister
Got it. Thank you so much.

Operator
Our next question comes --

Mark Herndon
Operator, let me interrupt just for a second. Since we were on this topic, we did have a question come in through the webcast about whether the new tax via the bill, the inflation reduction act of 2022 would have any effect on our share buybacks. And I guess I'll address that and how we return capital. So I'll address that by saying once the bill becomes law and we fully evaluate all of the actual language that's in the bill, we can give you maybe a broader assessment, but what I've read thus far is it a 1% tax on the value of the buybacks or the amount of repurchases.
So we would factor that into our analysis of whether or not it would be accretive to do every purchase. And really, I guess I would limit the analysis to that right now and just kind, of a little bit of a wait and see we need to make sure we see the final terms of how that would work and calculate what an impact would be to us.

Okay, sorry, operator. You want to go ahead with the next question?

Operator
No worries. Our next question comes from the line of Jason Stankowski with Clayton. You may proceed with your question.

Jason Stankowski
Hey. Couple of questions. So you put the 10-B5 in place and there has been some disruption in the markets. And you mentioned how your comps and stuff were sort of flat relative to the fit. Is there anything that's transpired within the companies that would make you if you were putting that together today make you less constructive about the possibility that the purchases being made today are going to be accretive to us, the shareholders?

Eric Salzman
No. There is a -- that's range that we established and that we have in place would be relevant today -- is relevant today. If it weren't relevant today, we would suspend the plan. We have the ability to suspend the plan. You just can't turn it off and on. And so there's (crosstalk). If we concluded it was not accretive we would not spend capital unless you thought it was accretive.

Jason Stankowski
Okay. That's helpful. And then in your first part of your comment on Houlihan Lokey process. How expansive is number one in terms of are you out there actively saying, hey, we'll look at a marijuana growing operation or a biotech firm investment or a debt structure investment just a totally new wholesale business to get into and how far reaching might that be versus more of a

sort of a merger with us getting some value? Just curious how far afield is the process with Houlihan?

Eric Salzman
Yes. So I'll answer it in two parts. So first of all, we chose Houlihan Lokey because they're a market leader in these types of transactions. And we've instructed them to go as wide as possible, as it relates to outreach and they've gone out to hundreds of parties. As it relates to what we think would be attractive to us, to the board, to the shareholders. I think we'd like to have a very wide aperture, but I think the reality is, we know we're comparing everything against a runoff plan. And so definitionally, you can get your arms around a runoff plan, although there's going to be variability, as we've seen in terms of the value of exits, and the time to exit.

Obviously, something that's an alternative to that will have to be compelling enough and understandable enough to make it worthwhile. So I would say wide aperture for Houlihan. But the shifting that we'll do at the next stage, at this current stage has in mind a lot of the topics that you've mentioned in terms of it still has to be acceptable to our shareholders, it has to be make sense to the board, it has to make sense to Mark and to me, I mean, we're -- this is a shareholder plays, this is a stock play for me. And so with our shareholder hat, it has to be compelling as the first threshold question. And then if it is compelling, we'll then do more work on it.

I'll add one more thing just as it relates to the overall process. It's a pretty low cost the option for us to explore if there is something out there meaning the cost to Houlihan Lokey is variable, it's success based, and the real tax is on Mark, Matt and my time, which is a fixed costs, right. So for us to explore alternatives, we think it's in the best interest of the shareholders, what we get to and if we get to something that remains to be seen, and we'll report it back out to you. We'll give you an update next quarter.

Jason Stankowski
Okay. And then I guess as a follow up to that. It was really nice for you to lay out the schedule. People must be asking for all of our portfolio companies. I guess that four to six months sort of applies to us as well with this Houlihan process, are you -- I understand that boards of directors of any public company are always open to do the right thing if something that comes across their desk. But how do you create -- are you going to create sort of a, hey we want to look at everything we can but if by the end of September, or October, or November, or when do you get to the point where you say, we guys, shareholders, this is -- we haven't found anything, of course, anything could come across the transom subsequent to that date. But that we've turned over all the things we thought were viable to turn over. And we want to let you know, we're going down this path unless something comes over the top that's just knock our socks off. Like will we get to the dividing line of a date where you will tell us that you're sort of done doing this? Is that important

for the process with the counterparty that Houlihan might bring in, etc? How do you think about that?

Eric Salzman
Yes, well, I mean, the process is a process. So what I laid out earlier in terms of timeline and steps, and I apologize to any of our investors who kind of know M&A off the back of their hand, but we have gotten questions around like, why does it take so time -- so much time, so we really wanted to kind of step you guys through the different pieces; so you can apply that timeline to our process with Houlihan.

Now, we don't want, this is not meant to be like an open ended, like we're going to run a process for a year, it's we'll see what we have, and within the book ends of the timing that we described as a typical M&A process, plus or minus, we're going to know if something hunts or doesn't hunt. And the reason, Jason, is like, if it doesn't, then we have to plan accordingly as it relates to our current runoff plan.

It's not a TS. It's not just an open ended, we will continue forever kind of thing and again Houlihan Lokey as I said, it's a success fee. So if they don't, at a certain point, if it's not a real deal to be had there, then it's not going to be use of their time either.

Jason Stankowski
So it's not as clean as when you're running an auction process for a deal and you say preliminary bids are in here. Then final bids are here, we're going to get down to two, when we're going to get to a term sheet. It's not that finite, because of sort of the open ended nature of it. But in your mind, you're running it with some construct around there so that if by the end of the year or something you'll be done with the process. And you'll be telling us how you're going to optimize the runoff of the company, but for something coming in over the top.

Eric Salzman
That is well said. And I'll just add that we have a controlled process but within the controlled sale process, every conversation is a bespoke conversation with a counterparty. So your point about it not just being a, I'm selling a widget company and everybody can take a look at the widget company, each conversation, each set of conversations are bespoke, which could lead to the like wider end, the outer end of the time, but it is a process that will have a conclusion to it. Not a open ended forever aspect to it, right.

Jason Stankowski
So we can move forward. Okay, great. I appreciate it. Thank you very much.

Eric Salzman
Thanks, Jason. Any time.

Operator
Matt, do you see any questions on the webcast?

Matthew Barnard
No further questions on the webcast.

Operator
Ladies and gentlemen, we have reached the end of today's question and answer session. I would like to turn the call back over to Mr. Eric Salzman for closing remarks.

Eric Salzman
Thanks, Laura. Thank you for joining us on the call today and for your continued interest and support of Safeguard. As always, please feel free to contact us if you have any additional questions and have a good evening. Thanks.

Operator
This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation and enjoy the rest of your day.