COMPANY REPORT / 5i OPINION

Savaria Corp.

- Integrity
- Independence
- Insight
- Individually-focused
- Investments

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5i Report Card

Metric	Value	Grade
Industry	Industrials	
Expected 1 year Revenue Growth	24.6%	A-
5 Yr. Revenue Growth	7.9%	B
5 Yr. EPS Growth	19.1%	A-
5 Yr. ROE	17.6%	A-
Gross Margin	31%	A-
Net Margin	9.4%	B+
Current Ratio	2.83	A
Debt/Equity	0.31	A-
Insider Ownership	42.8%	A+
Recessionary EPS (2008/2009)	0.06/0.09	B
5 Yr Dividend Growth	15.1%	A
Qualitative	Valuation, Small-Cap	C+
Rating -		B

- Facing strong demographic tailwinds
- Good dividend that is growing
- Management interests aligned
- Potential to surprise via acquisitions
- Rating maintained at 'B'

JULY 11, 2016

Traded as:	SIS (TSX)
Price:	C$8.56
Dividend:	2.34%
Debt:	Medium
Market Cap:	$302 mm
Stability:	Medium

"B"

Company Profile

Savaria Corp. (SIS) is a leader in the accessibility industry, offering a diverse product line of stair lifts and platform lifts as well as residential and commercial elevators. SIS designs, manufactures and installs this equipment, which is sold through a network of 600 retailers, primarily in North America. The company has five facilities, in Brampton, London, Calgary and China and has recently purchased the automotive division of Shoppers Home Health. Savaria operates in a fragmented industry with limited comparable competitors especially since the takeover of a close competitor and another 5i Research coverage company, Prism Medical (PM), was announced in late June 2016.

Revenue Mix

SIS segments revenue into accessibility and adapted vehicles. Accessibility makes up 86% of revenues and involves the design, manufacture and installation of accessibility equipment. This segment also includes the Silver Cross companies, acquired in 2014, which sell new and recycled accessibility equipment. Within this segment, 50% of revenues are commercial and 50% are residential. Adapted Vehicles, as the name describes, converts and adapts vehicles to meet accessibility needs. This segment makes up 14% of revenues and SIS can process 500 vehicles a year but we expect to see some good growth in this area as SIS integrates the Shoppers acquisition, adding 7 corporate stores across Canada that are able to meet all mobility needs. Within Accessibility, 54% of revenues come from the United States, with 37% from Canada and the remainder from outside North America. The vertical integration through the plant in China allows for 42% of purchases to come from this region while 31% of purchases are from Canada and 16% from the US. This allows for some currency benefit potential in the current environment. Adapted Vehicles see 93% of revenue come from Canada.

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Growth Plans

Savaria has grown through acquisitions, which is exemplified by the $4.7 million purchase of Silver Cross in 2014 and more recent purchase of the Shoppers Automotive division, which is expected to add $15 million annually to revenues and $1.5 million to EBITDA. SIS also concentrates on organic growth through development of new products. The main driver of growth should simply be the demographic wave helping the company, which should support demand in a few ways. First, with longer life expectancies, more things 'go wrong', which means that there should be an increased need for accessibility solutions. Second, with healthcare systems being strained, keeping individuals in their homes (opposed to at hospitals) should be a key focus from healthcare providers (hospital beds are costly). Finally, retirement homes can be expensive, and if a stair lift means an individual can remain in their fully owned home, the decision likely becomes an easy one.

Valuation

With SIS stock trading at 22 times next years earnings and revenue growth expectations above 14% out to 2018, we think upside remains as long as SIS continues to execute as it has in the past. However, risks are higher than when we first started covering SIS at $5.16 and 16 times forward earnings just back in February 2016. We expect SIS to justify the current premium through future acquisitions and simply due to demand from investors looking for sectors that offer stability and growth. We would, however, expect scrutiny and volatility to increase for the name. The 2.3% dividend has also been growing, with a 25% increase in November 2015 and further room to grow. With the recent run in the share price, we think markets are starting to realize the long-term potential here and the recent acquisition of Prism Medical (PM) has brought a bit of an acquisition premium into the share price and highlighted the space. Finally, management interests are aligned, with a high insider ownership level.

Recent Financial Results

SIS has provided Q1 2016 results, which showed sales of $26.2 million, up 29.6% and EBITDA of $3.9 million, up roughly 36%, both at records for the first quarter. Guidance for the 2016 fiscal year was reaffirmed at $107 million in revenue and the midpoint of $17 million for EBITDA, excluding the Shoppers acquisition. SIS also closed a financing for $20.28 million.

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Key Risks

The usual small-cap stock risks do exist for Savaria, where no matter how attractive it looks; it may simply not get attention from the broader investment community but given performance, we think this will change sooner than later. Key-person risk is another concern with the Bourassa's holding the majority of shares and being the primary driving force behind the business at this stage. The other notable risk we think is worth mentioning would be that of liability, where if the equipment malfunctions or does not do as it was supposed to, there could be resulting injuries that expose the company to litigation risk. SIS meets various safety standards, which does help to mitigate this concern. FX risk also exists but with a large degree of revenues in the US and costs from other regions, this trend should be benefitting the company for the time being.

RECOMMENDATION:

Continues to execute

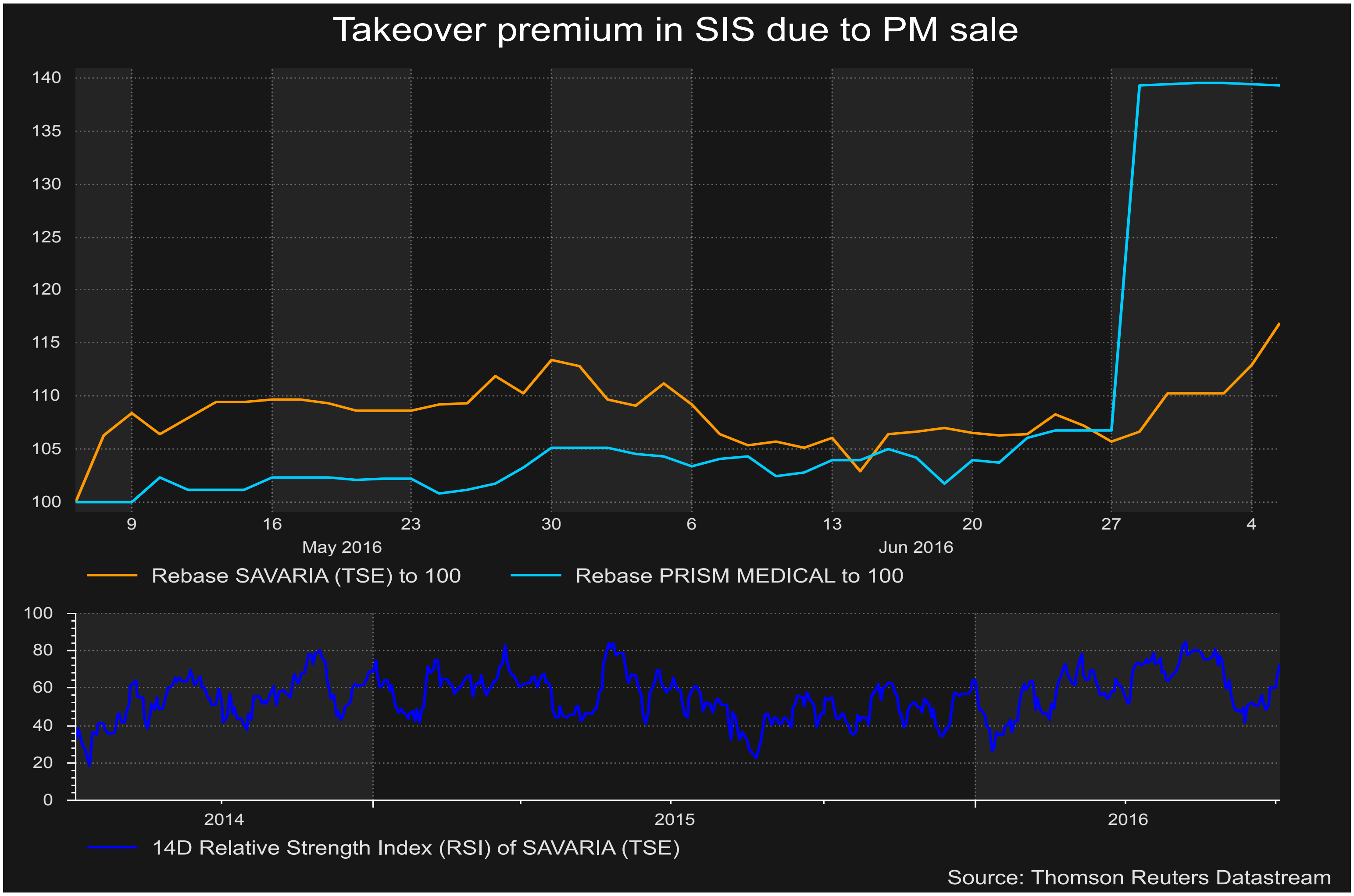
Strong fundamentals

Main concern is loftier valuation

"B"

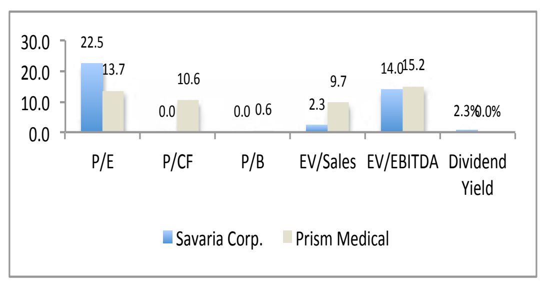
SUMMARY AND INVESTMENT RECOMMENDATION

While a smaller, lesser-known company, we think the macro-economic trends surrounding aging demographics and the healthcare industry add some stability and safety to a name such as SIS. If SIS were to do nothing, they should still benefit from a growing customer base. We like this 'floor' that can be put into the stock and believe that it also adds to the reliability of the distribution. To add to this, an acquisition at any time could boost the growth rates even further, making a currently 'pricey' valuation look not very expensive at all. With a return in the 68% range since initiating coverage and the potential behind the name now being priced in much more accurately, we believe that tempering expectation would be prudent. We would still prefer to own SIS in some manner as the valuation could remain 'expensive' as the fundamentals grow along with the share price and it holds all of the qualities we like in a stock. While risks have risen due to the valuation, we believe the prospects for SIS have never looked better and the premium is more than justified. Overall, Savaria continues to be a great company for a long-term shareholder and we are maintaining the rating at 'B'.



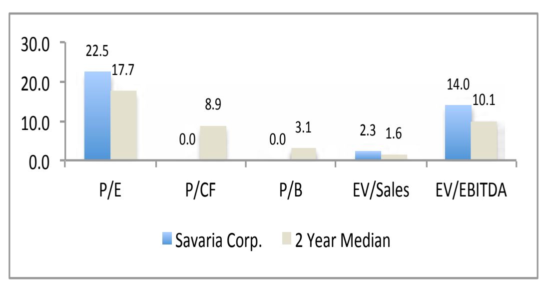
Comparables Analysis

	Ticker	P/E	P/CF	P/B	EV/Sales	EV/EBITDA	Dividend Yield
Savaria Corp.	**SIS**	**22.5**	**N/A**	**N/A**	**2.3**	**14.0**	**2.3%**
Prism Medical (being taken over)	PM	22.3	N/A	5.1	1.0	8.6	4.0%
Prism Medical		**13.7**	**10.6**	**0.6**	**9.7**	**15.2**	**0.0%**
Premium (Discount) to Peers		64.2%	N/A	N/A	-76.3%	-7.9%	0.0%



Historical Analysis

	Ticker	P/E	P/CF	P/B	EV/Sales	EV/EBITDA
Savaria Corp.	**SIS**	**22.5**	**N/A**	**N/A**	**2.3**	**14.0**
2 Year Median		**17.7**	**8.9**	**3.1**	**1.6**	**10.1**
Premium/Discount to Median		27.1%	N/A	N/A	43.8%	38.6%



*All metrics are based on forward consensus estimates. 5i Research cannot ensure the accuracy of these numbers at the time of reader consumption.