

Desautels Capital Management

Savaria Pitch

Healthcare

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- a. Company Overview
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II. Investment Rationale

- a. Garaventa Acquisition
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- c. Multiple Re-Rating

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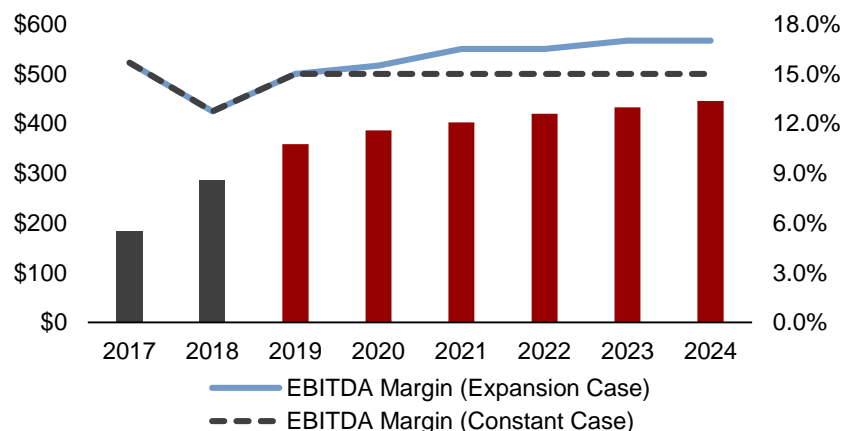
- a. Comparables & Benchmarking
- b. Discounted Cash Flow
- c. Business Model
- d. Investment Highlights
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Accessibility products represent a resilient, fast growing market within medical devices

Savaria Overview

- Headquartered in Laval, Savaria manufactures and markets stairlifts, platform lifts, and residential and commercial elevators
- Operates through two segments: accessibility and adapted vehicles
- LTM Revenues of \$346mm and LTM EBITDA of \$44mm
- Dominant player (by sales and profit margins) in the North American platform lift and elevator market, driven partly by Garaventa and Span acquisitions

Savaria: Revenue Forecast (\$M)



Investment Rationale

EBITDA Margin Expansion:

1

The Garaventa Lifts acquisition has been **overly punished** by the market **due to its short-term margin impact**, yet it will **be value accretive in the long-term**

2

Savaria is executing on a **tuck-in acquisition strategy**, with both the **debt capacity** and **strong acquisition track-record/expertise** to continue its success in consolidation

Multiple Re-Rating:

3

Potential **upwards EV/EBITDA multiple re-rating** from small Accessibility pure play peers to broader medical devices

\$15.00
Target Price

17.5%
Implied Upside

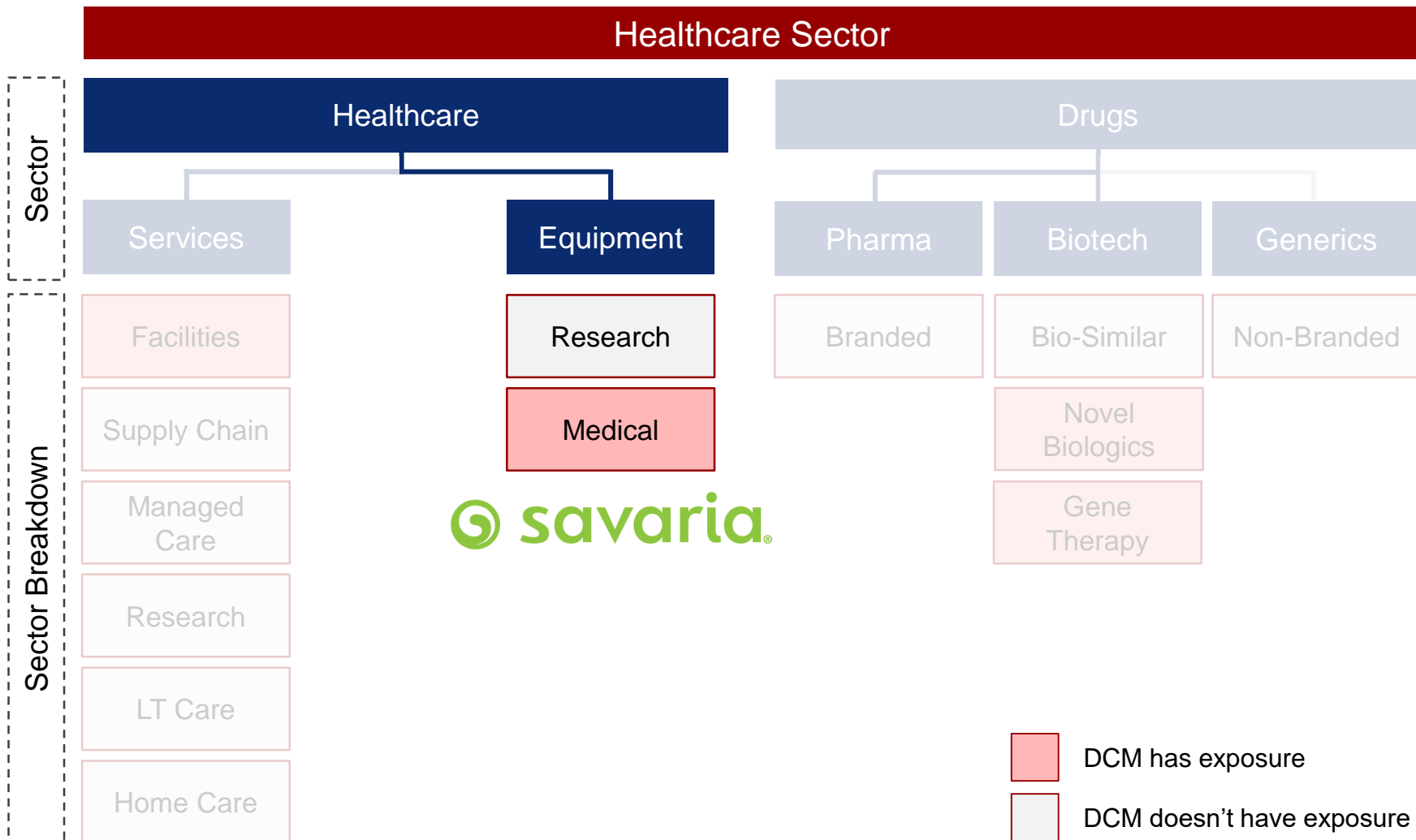
We recommend increasing our exposure to the accessibility space within medical devices. We see this as a resilient industry with secular cash flow growth drivers in the long-term. Savaria is the most attractive firm within its peer group.

Savaria Overview

SECTION I



DCM is looking to replace Fresenius with another leading medical devices company



Fast growing leader in the consolidating accessibility space

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Market Statistics

Values as at October 17, 2019

Share Price	\$12.77
Shares Outstanding	50mm

Market Capitalization	\$643mm
+ Total Debt	\$108mm
+ Preferred Stock	-
- Cash & Cash Equivalents	\$61mm

Enterprise Value **\$690mm**

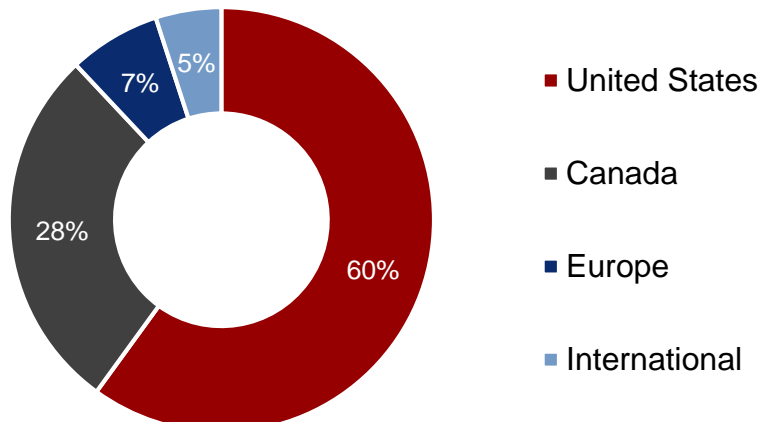
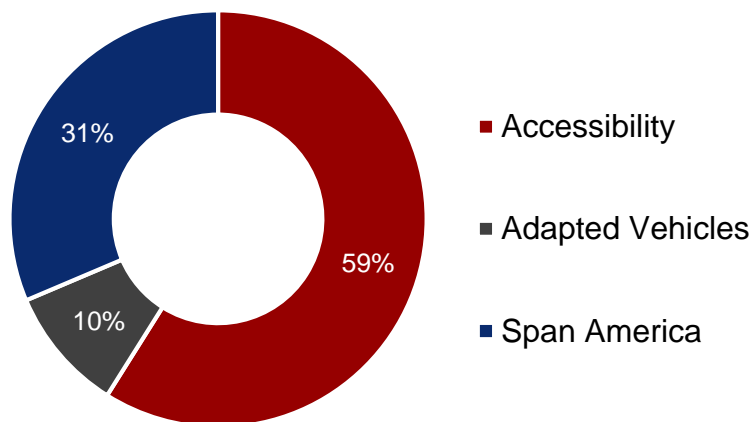
Key Metrics

EV/Revenue ('20E)	1.6x
EV/EBITDA ('20E)	9.9x
Revenue CAGR	51%

Debt Metrics

Debt/Equity	41%
Net Debt/EBITDA	1.1x
Interest Coverage	8.5x






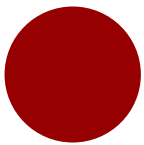
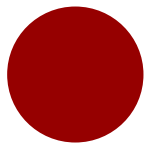
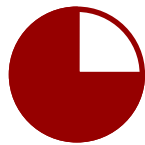





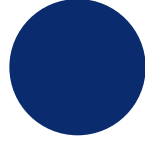
Revenue Breakdown



Source: Capital IQ, Equity Research.

Product Overview

Accessibility covers a wide variety of product-market segments

Select Accessibility products	Accessibility Lifts  <ul style="list-style-type: none"> ▪ Stairlifts for both straight and curved stairs ▪ Vertical and inclined elevator wheelchair and patient lifts 	Vehicle Adaptors  <ul style="list-style-type: none"> ▪ Adapted minivans by adding ramps and lowering floor ▪ Wheelchair-accessible vehicles 	Mobile & Seating  <ul style="list-style-type: none"> ▪ Power and custom manual wheelchairs ▪ Bathroom safety and accessibility ▪ Electromotive power add-ons 	Bedding / Furniture  <ul style="list-style-type: none"> ▪ Therapeutic support services and products ▪ Medical beds, ceiling lifts, patient handling and mobility solutions
				
				

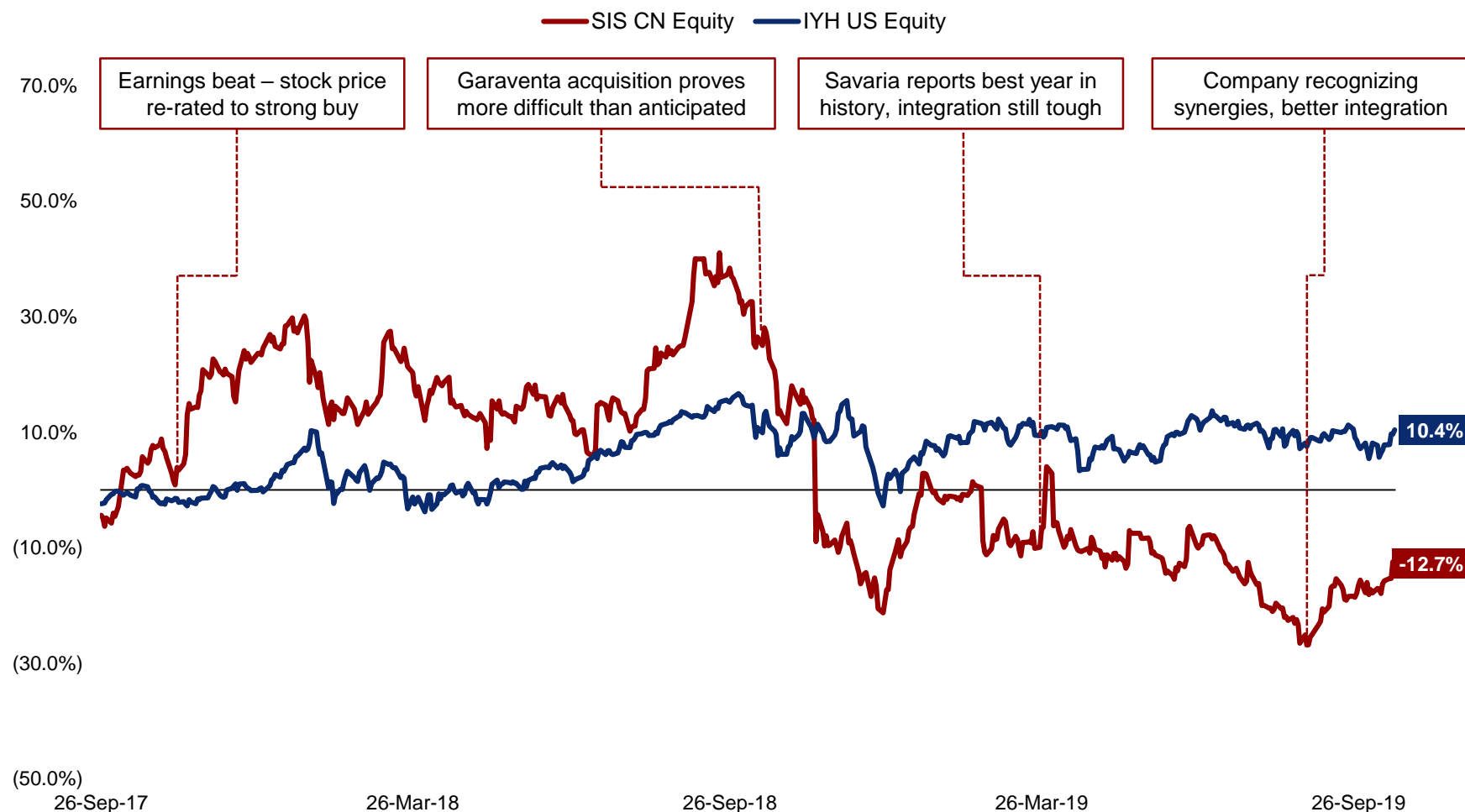
Smaller, more specialized players such as Savaria focus heavily on lift technology while larger, diversified players focus on all medical devices (including bedding and furniture).

Source: IBIS World, Company filings.

Savaria against Healthcare Benchmark: 2 Year Performance



Garaventa acquisition has driven stock price below benchmark



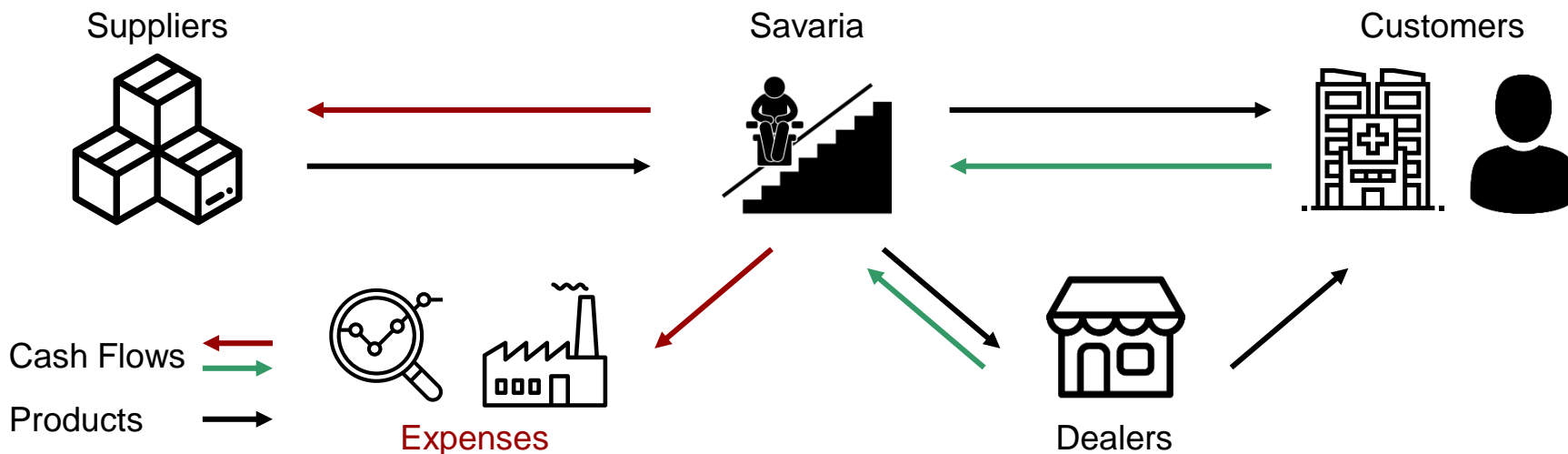
Market has unfairly battered Savaria over recent acquisition of Garaventa due to perceived long-term margin contraction.

Source: Capital IQ 10/19/2019

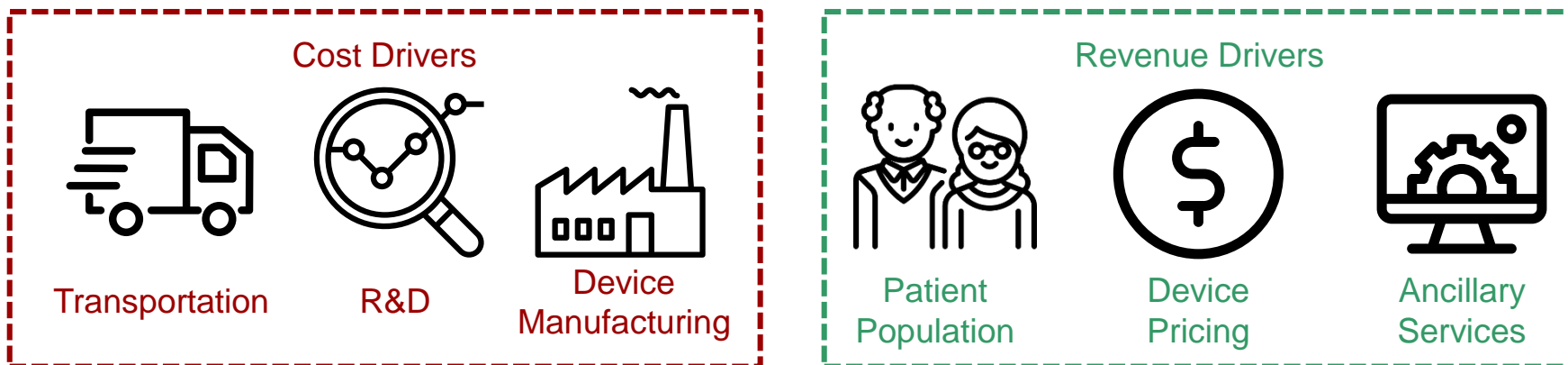
Savaria: Business Model Resembles Manufacturing

Optimizing this chain defines M&A in this industry

Business Model



Profitability Drivers

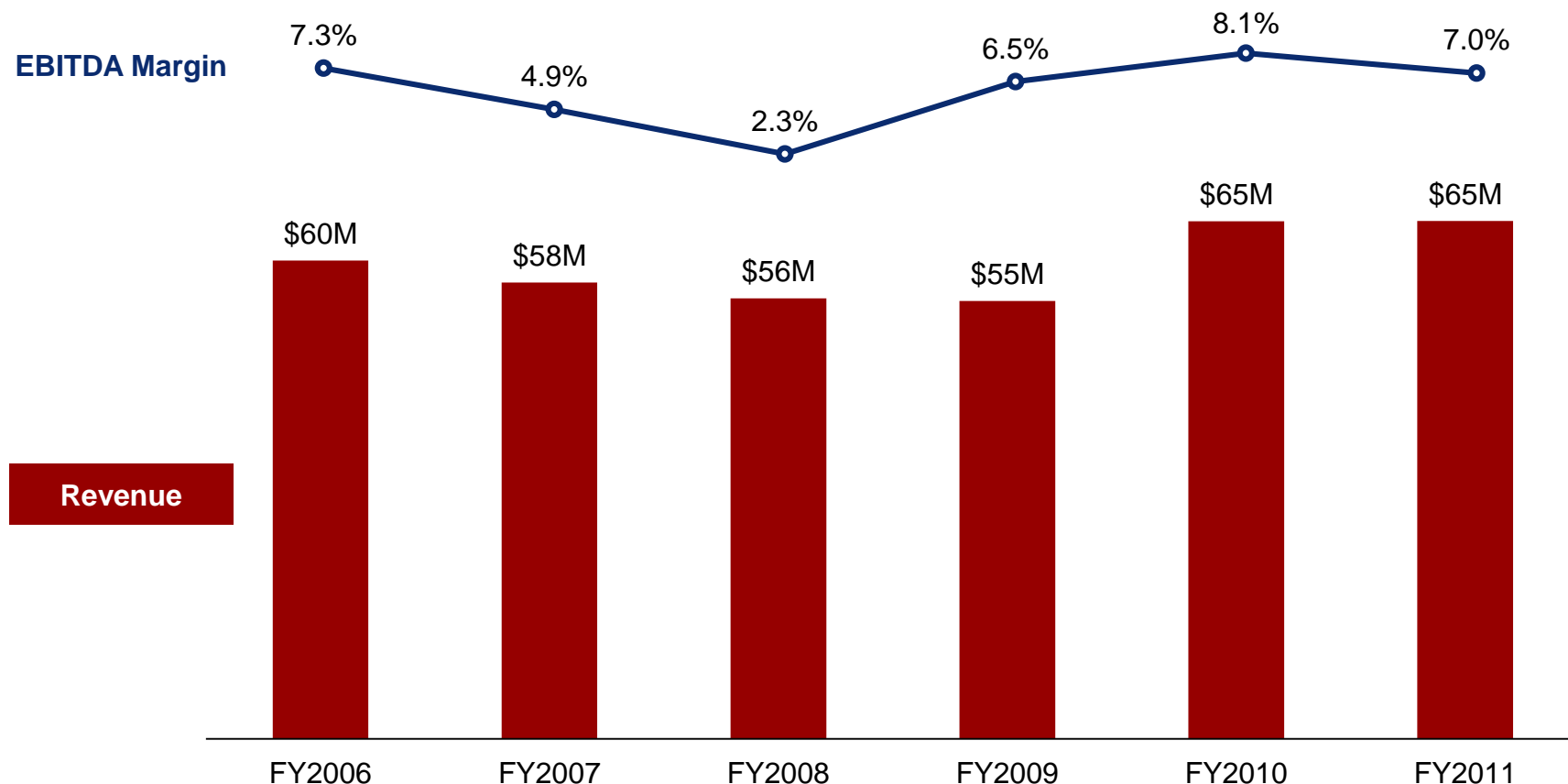


Source: Company filings, DCM.

Essential products provide some protection against economic downturns

(in \$ millions, unless noted)

Savaria Financial Performance During 2008 Financial Crisis



Low volatility revenues enabled faster recovery post-2008 in medical devices.

Source: Capital IQ 10/19/2019, Company filings.

Investment Rationale

SECTION II



Market largely right on Savaria, though its focus is too short-term

\$12.77
Current Price

\$15.00
Target Price

17.5%
Implied Upside

1 The Garaventa Lifts acquisition has been overly punished by the market due to its short-term margin impact, yet it will be value accretive in the long-term

2 Savaria is executing on a tuck-in acquisition strategy, with both the debt capacity and strong acquisition track-record/expertise to continue its success in consolidation

3 Potential upwards EV/EBITDA multiple re-rating from small Accessibility pure play peers to broader medical devices

Recommend a **BUY** on Savaria with a price target of **\$15.00**.

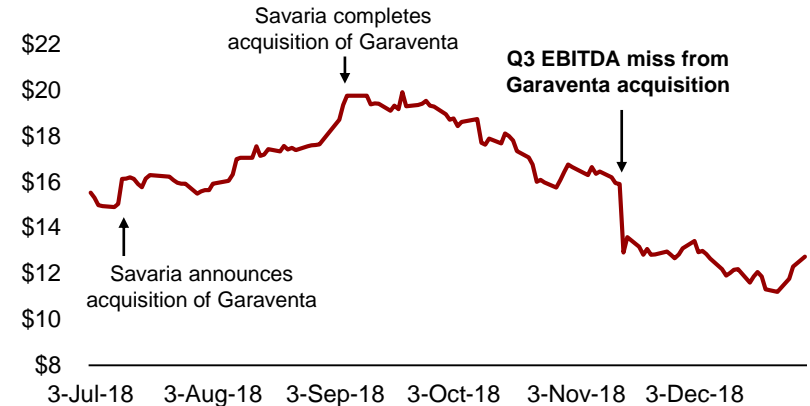
Garaventa Acquisition: Overview

Garaventa acquisition has been punished, while it will be long-term value accretive

Garaventa Overview

- On July 10, Savaria announced the acquisition of Garaventa Lifts (GL) for approximately \$98mm
- Management estimated \$2mm in anticipated synergies per year in the first full year with contribution of \$3.1 in adjusted EBITDA for remainder of 2018
- Savaria reported \$0.06 EPS on Nov. 14, 2018 for its Q3 earnings, missing consensus estimates of \$0.17 EPS
- Primary miss in EPS and EBITDA were driven by higher-than-expected acquisition and integration costs of GL

Share price plummets after Garaventa earnings



What analysts are saying...



"We believe that the **Q3 miss will cause investors to question the reliability of 2018 guidance**, which will keep a lid on the multiple near term. Thus we are reducing our target multiple to the 5-yr average of 11.5x 2019E EBITDA, which takes our target to \$15.00 from \$21.00 prior. **We are moving to Market Perform from Buy.**"



"Margin contribution for Accessibility of 17.6% was below our 21% estimate reflecting a lower than expected [Garaventa] EBITDA margin contribution of 4% vs. ~9% at the closing of acquisition... The in line Q3 sales give us comfort in our sales forecast (unch.) but the **EBITDA miss causes us to model the low end of the guidance range for both years.**"

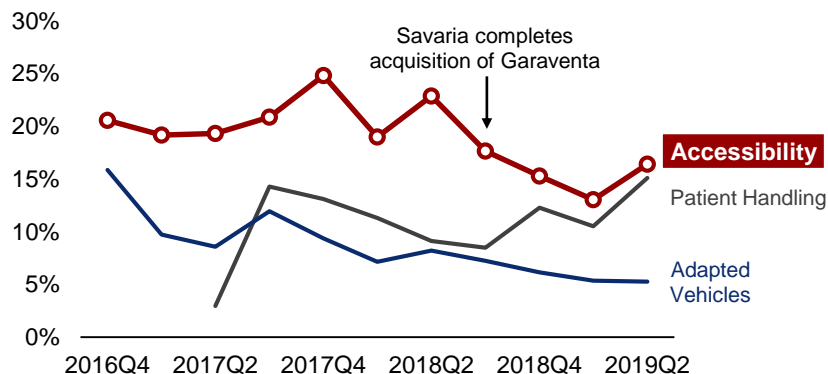
Market is losing track of the future benefits related to Garaventa Lifts acquisition and is punishing Savaria based a one-quarter stumble. **EPS accretion for '19E veruses '17A is 22.3% in our view.**

Source: ThompsonOne, Company filings.

Garaventa Acquisition: Margin Impact

Margins post acquisition

Segment EBITDA Margin



Why did Accessibility margins contract in 2018?

1



Lower historical gross margin from Garaventa activities

2



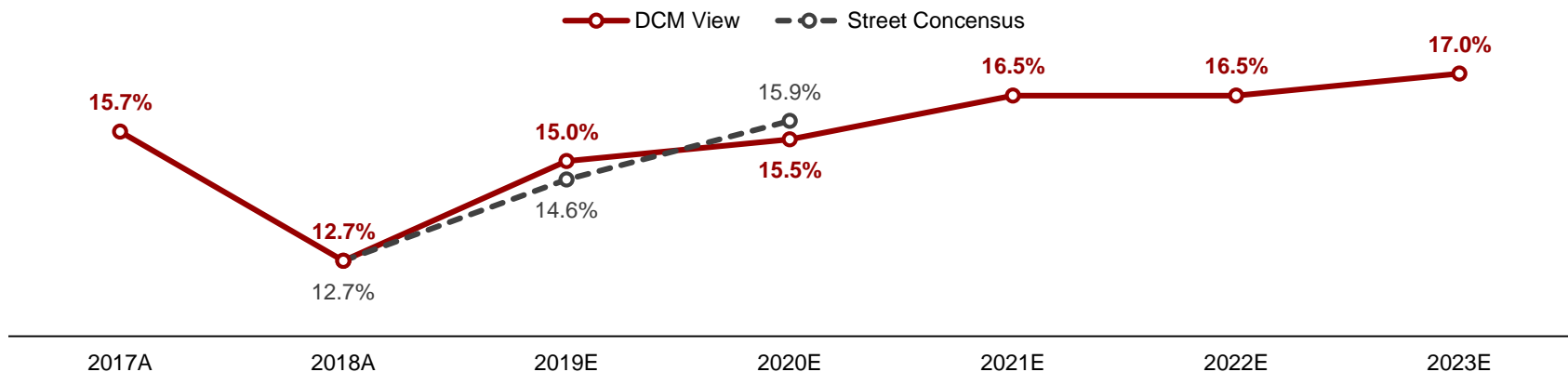
Acquisition integration costs of Garaventa acquisition (\$0.688mm)

3



Restructuring of Garaventa's Chinese subsidiary (\$1.554mm)

Although EBITDA margin contracted from Garaventa acquisition, they are set to rebound in the long-run



Recent EBITDA margin contraction in accessibility are due to one-time integration costs and do not impact long-term profitability.

Source: Capital IQ 10/19/2019, Company filings.

Garaventa Acquisition: Margin Improvement Drivers

Management's action plan to realize synergies

Past Actions

Expand global market presence, especially in U.S. West Coast and E.U.

Leverage new distribution to sell existing Savaria product lines in new geographic regions

Planned Actions

Realize economies of scale through vertical integration of supply chain

Combine R&D staff and resources to roll-out new innovative products

Improve gross margin from low-cost supply plant in China

“This transaction provides us with a global sales infrastructure with 15 additional sales offices across North America and Europe, along with over 100 additional active dealers. On top of benefiting from a more geographically diversified revenue base, the acquisition of Garaventa Lift provides us with additional manufacturing flexibility with complementary production operations in Western Canada and Italy.”

Increase revenues by \$120mm for FY 2019

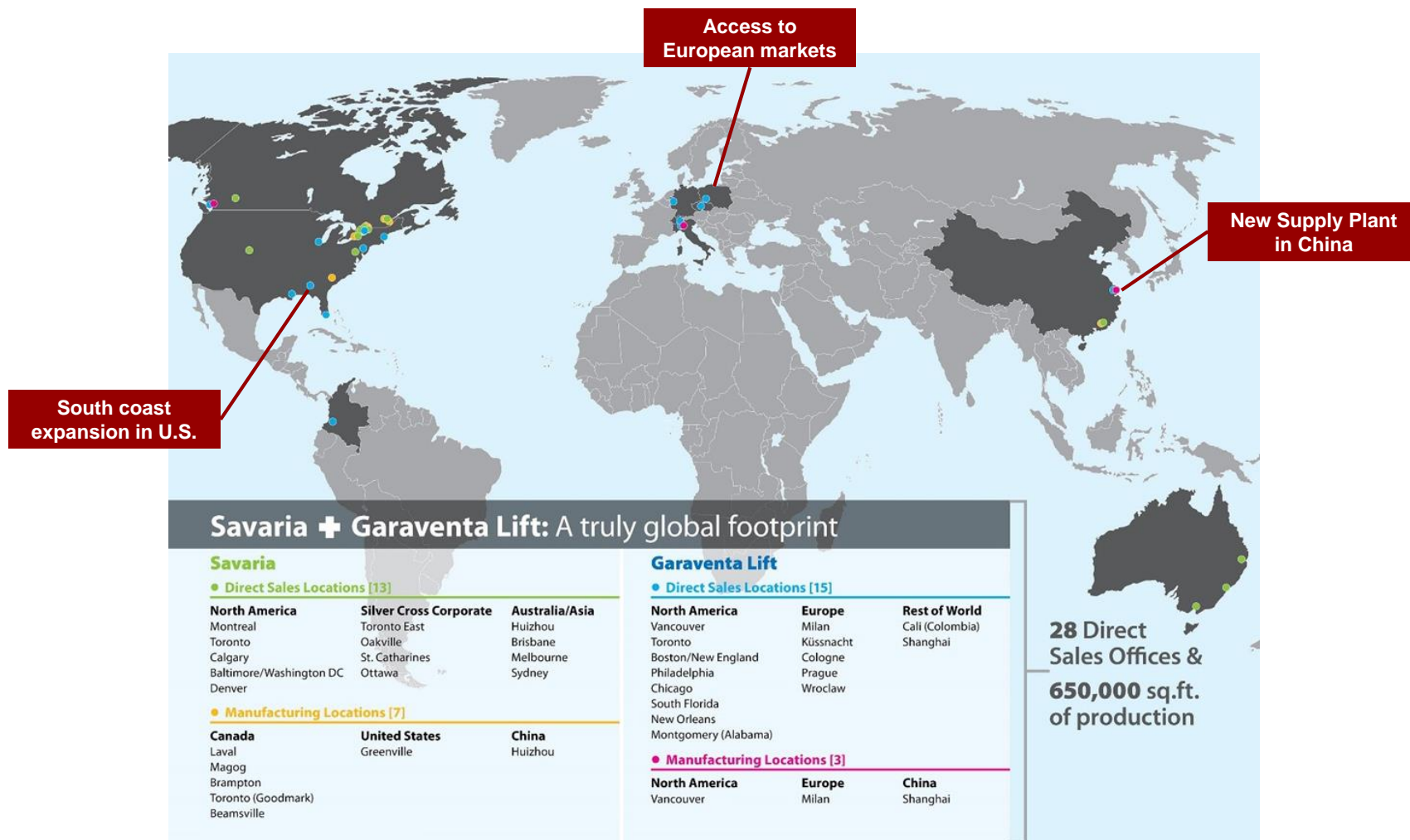
Contribution of \$13.5mm for FY 2019

Future action plan from management outlines multiple benefits and synergies from Garaventa acquisition which are yet to show up in Savaria's financials.

Source: Company filings.

Garaventa Acquisition: Diversification Benefit

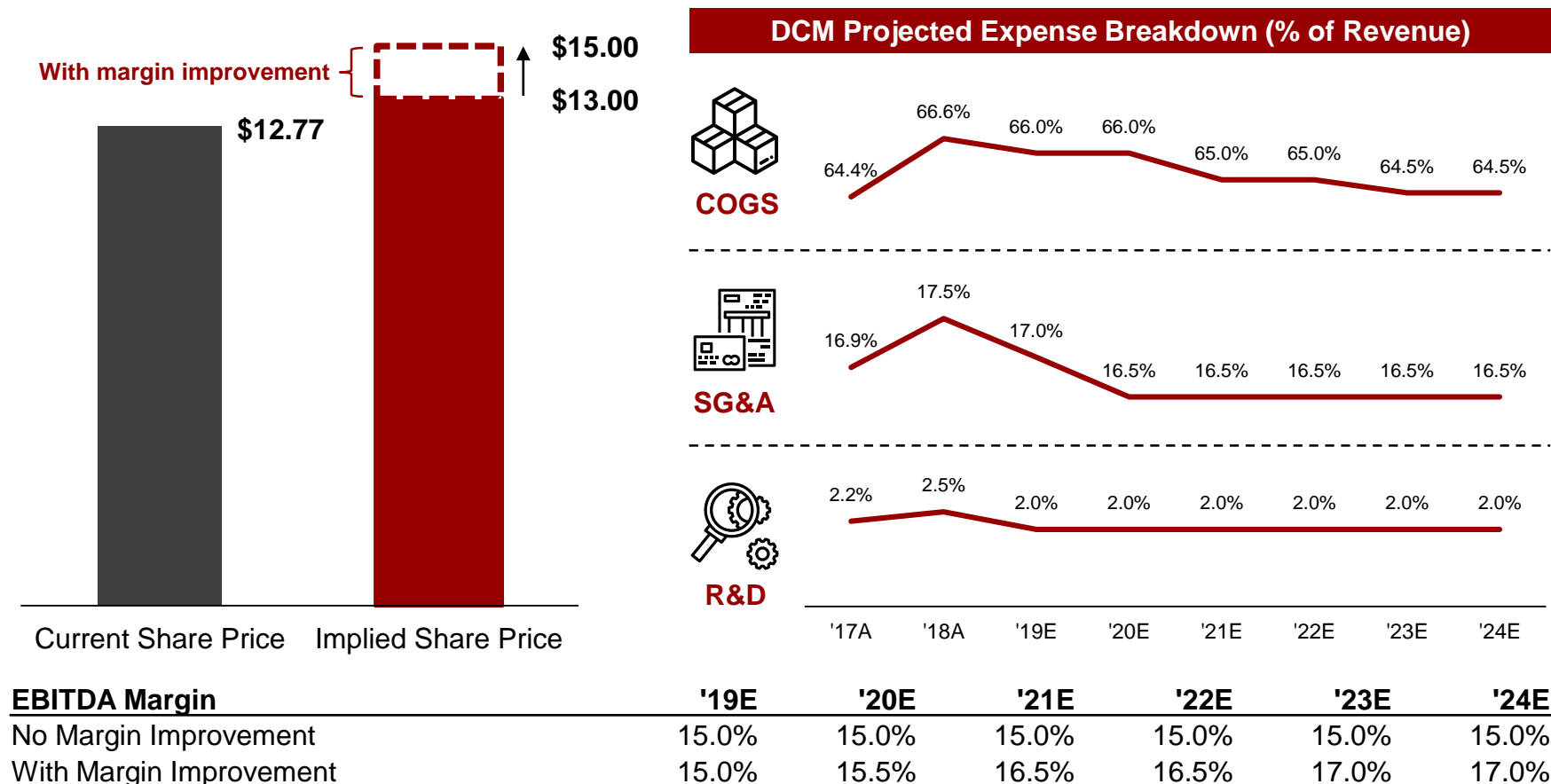
Global expansion of Savaria products with Garaventa acquisition



Garaventa Acquisition: DCM's Differentiated View

DCM is more optimistic on the Garaventa integration versus the market

Margin improvement scenario



Operating margins are poised to expand from improvements in COGS and SG&A stemming from acquisition of Garaventa.

Market largely right on Savaria, though its focus is too short-term

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Tuck-In Strategy: Recent Execution

History of strategic, accretive acquisitions

	Garaventa Lifts	Span America	Silvalea
			
Select Products			
Rationale	<ul style="list-style-type: none"> Acquire Garaventa's global customers and cross-sell wheelchair lifts, platform lifts and vertical lifts Geographic expansion <ul style="list-style-type: none"> Expands footprint to the West Coast, facilitating production and lowering transportation costs Swift European expansion in key locations across Germany, Switzerland, Italy and Poland Additional Chinese capability in sales and production 	<ul style="list-style-type: none"> Diversifies Savaria's product line into therapeutic bedding <ul style="list-style-type: none"> Despite being lower margin, an expanded portfolio creates cross-selling opportunities Acquire Span's existing clients key institutional clients including the US Veterans Affairs and other Silver Cross outlets Increase presence in the United States with additional manufacturing and sales capabilities Additional Chinese capability in sales and production 	<ul style="list-style-type: none"> Cross-selling opportunities for patient lifts and pressure care products Leverage existing American manufacturing capability to serve both US and Canadian end markets Increased international expansion in Australia and the United Kingdom
Deal Details	<p>Transaction Cost: C\$98mm</p> <p>Multiple: 11.8x ('17 EV/EBITDA)</p> <p>Source of Financing: Cash/Debt</p>	<p>Transaction Cost: C\$110mm</p> <p>Multiple: 15.5x ('16 EV/EBITDA)</p> <p>Source of Financing: All Cash</p>	<p>Transaction Cost: C\$7.8mm</p> <p>Multiple: 7.8x ('18 EV/EBITDA)</p> <p>Source of Financing: All Cash</p>

Source: Capital IQ, Company filings.

Tuck-In Strategy: Value Accretive Acquisitions

Savaria has demonstrated strong cost discipline in its acquisitions

Savaria's Historical EV / NTM EBITDA Valuations



Garaventa, Span, and Silvalea were all acquired without additional equity issuance at EV / EBITDA multiples below Savaria's own market valuation.

Source: Capital IQ, Company filings.

Tuck-In Strategy: Future Execution

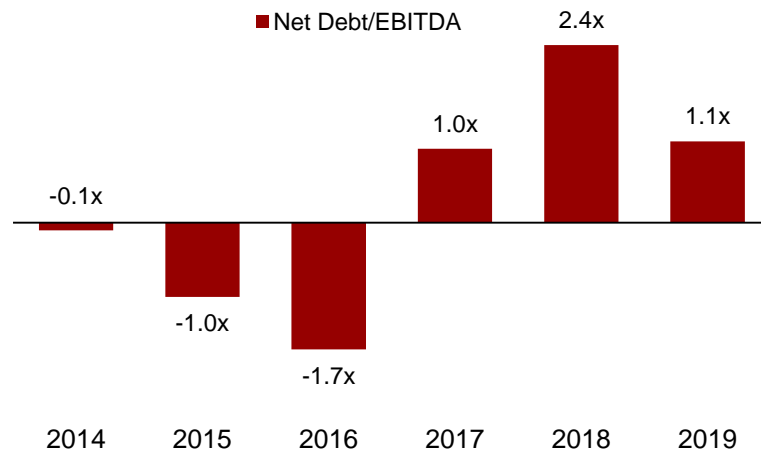
Management is guiding near-term acquisition

Acquisition Considerations

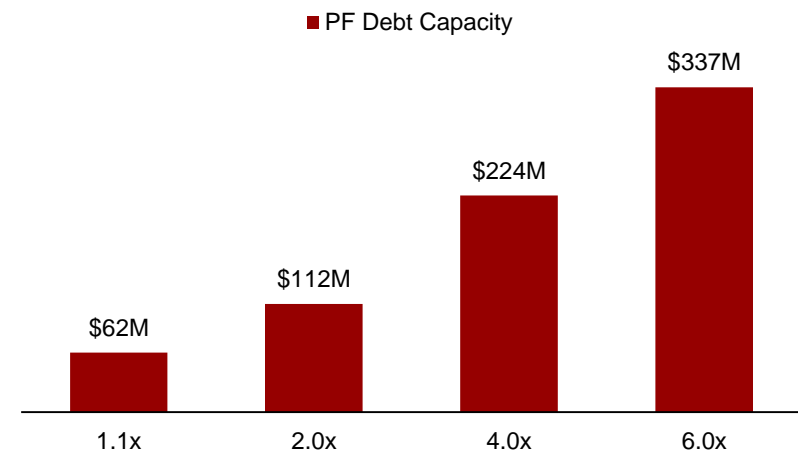
- Savaria is looking to strengthen its market share in the North American lift segment
- Also considering new markets such as dumbwaiters and materials elevators
- Integration from previous acquisitions is finalizing and deleveraging, leaving financial flexibility to seek another target



Deleveraging Cycle



Capacity for Future Acquisition Funding



Acquisition of C\$100mm would take pro forma net debt/EBITDA to ~1.5x.

Source: Capital IQ, Company filings.

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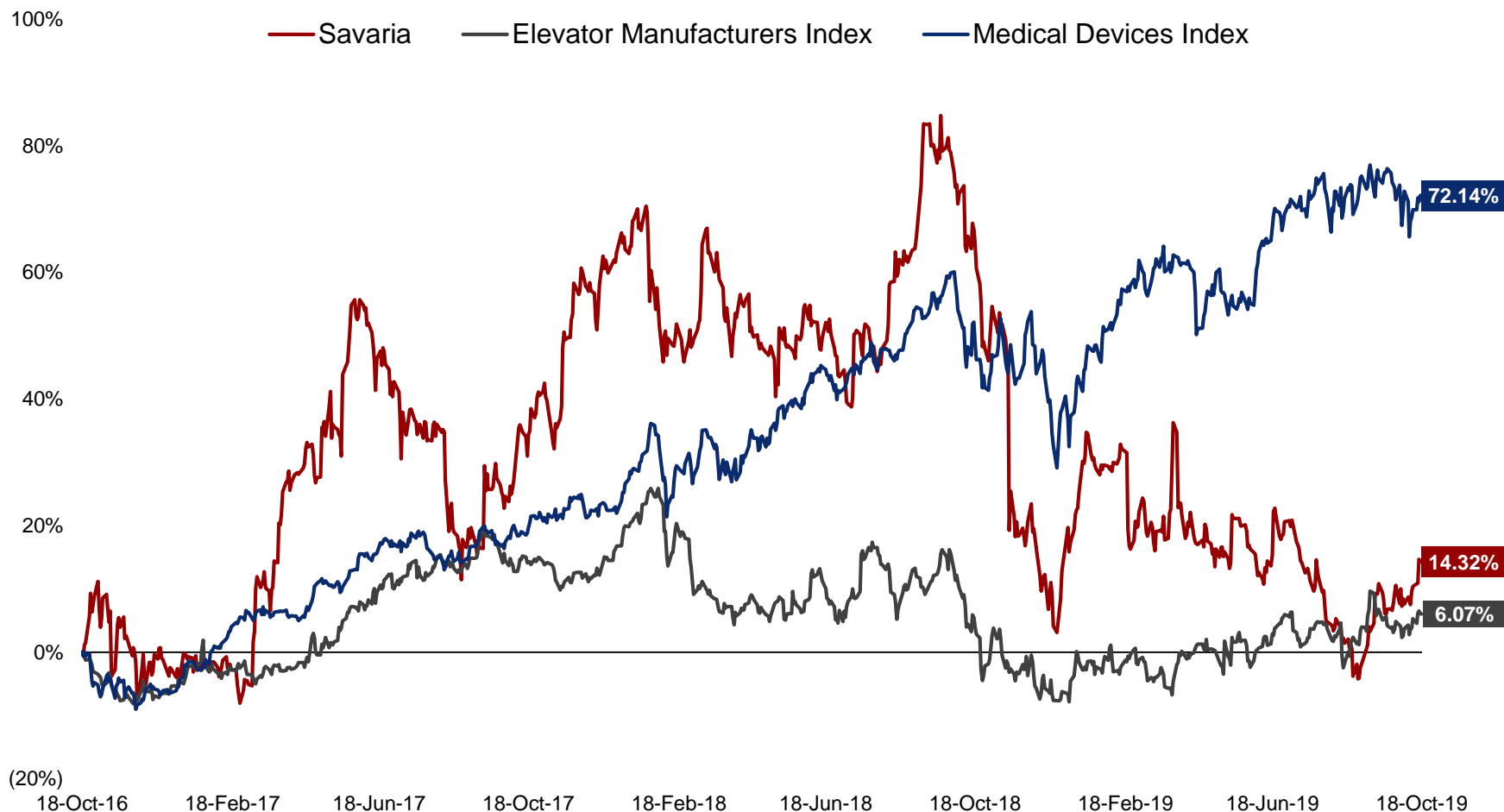
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Multiples Re-Rating: Price Analysis

Savaria price performance versus peer groups



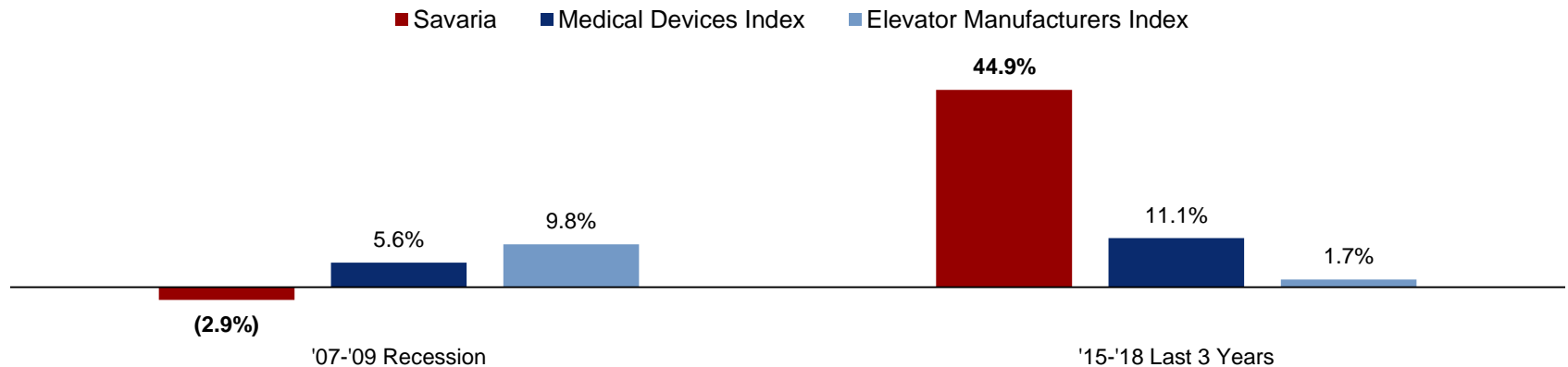
Savaria has historically traded with broader medical devices at times, most noticeably between late '17A – late '18A. Recently, ever since the market downturn at the end of '18A, Savaria has traded with elevator manufacturers.

Source: Capital IQ.

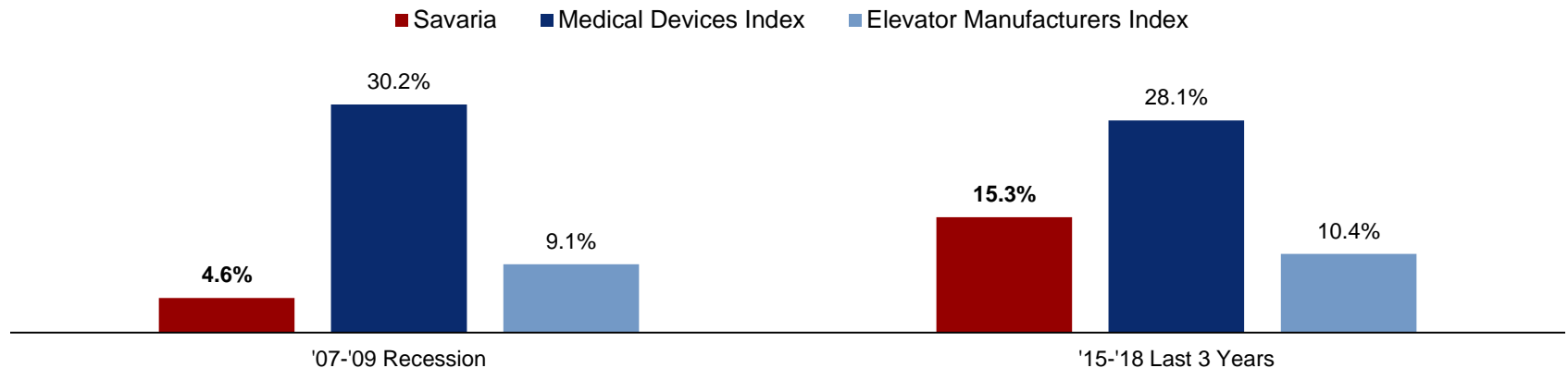
Multiples Re-Rating: Fundamental Analysis

Savaria fundamentals versus peer groups

Revenue CAGR



Average EBITDA Margin

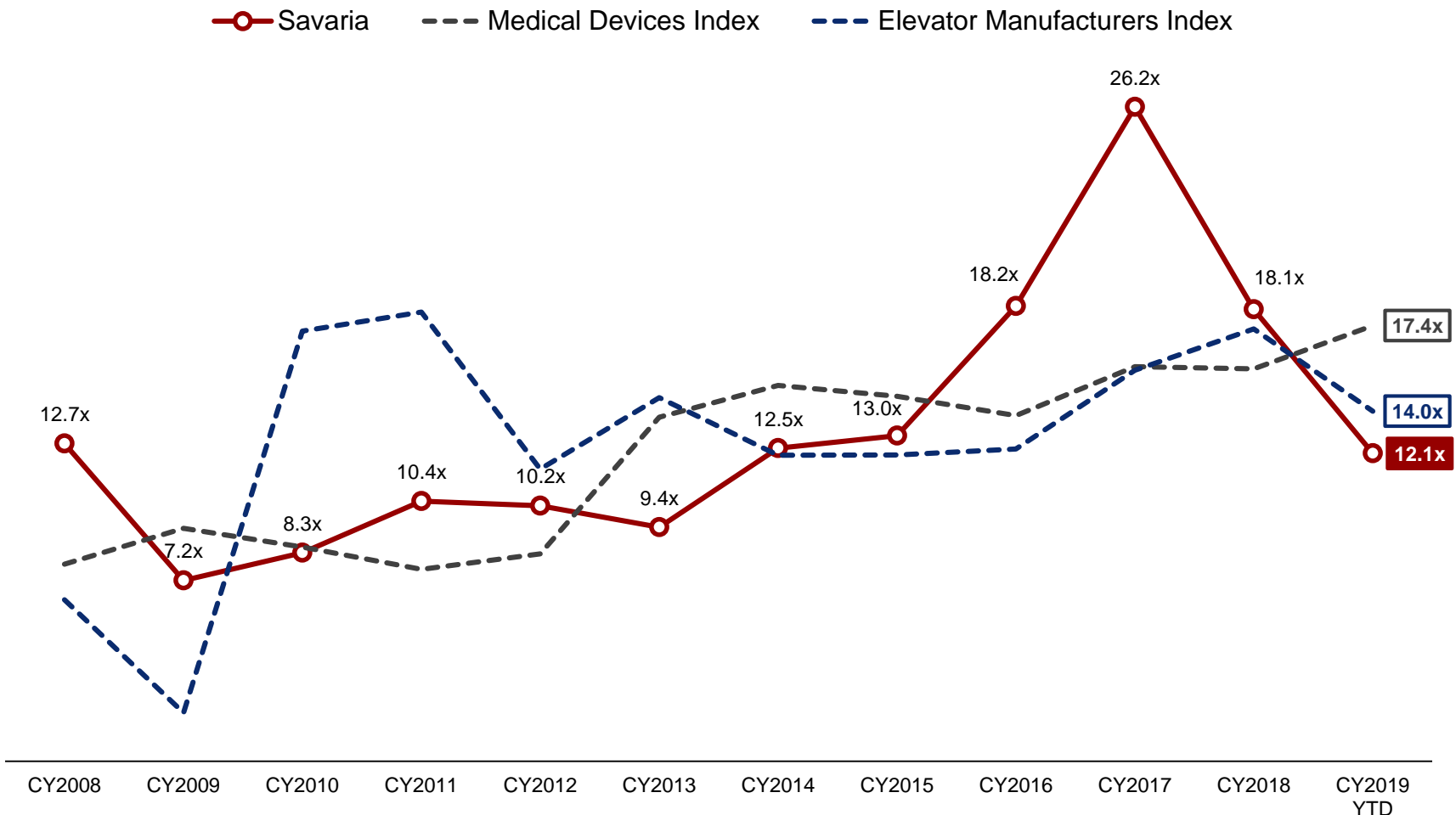


Savaria demonstrates fundamental qualities of both traditional elevator manufacturers and broader medical device manufacturers. Recently, as Savaria has diversified its products, the resemblance to medical device peers strengthens.

Source: Capital IQ, Company filings.

Multiples Re-Rating: Historical Multiples

Historical peer group multiples



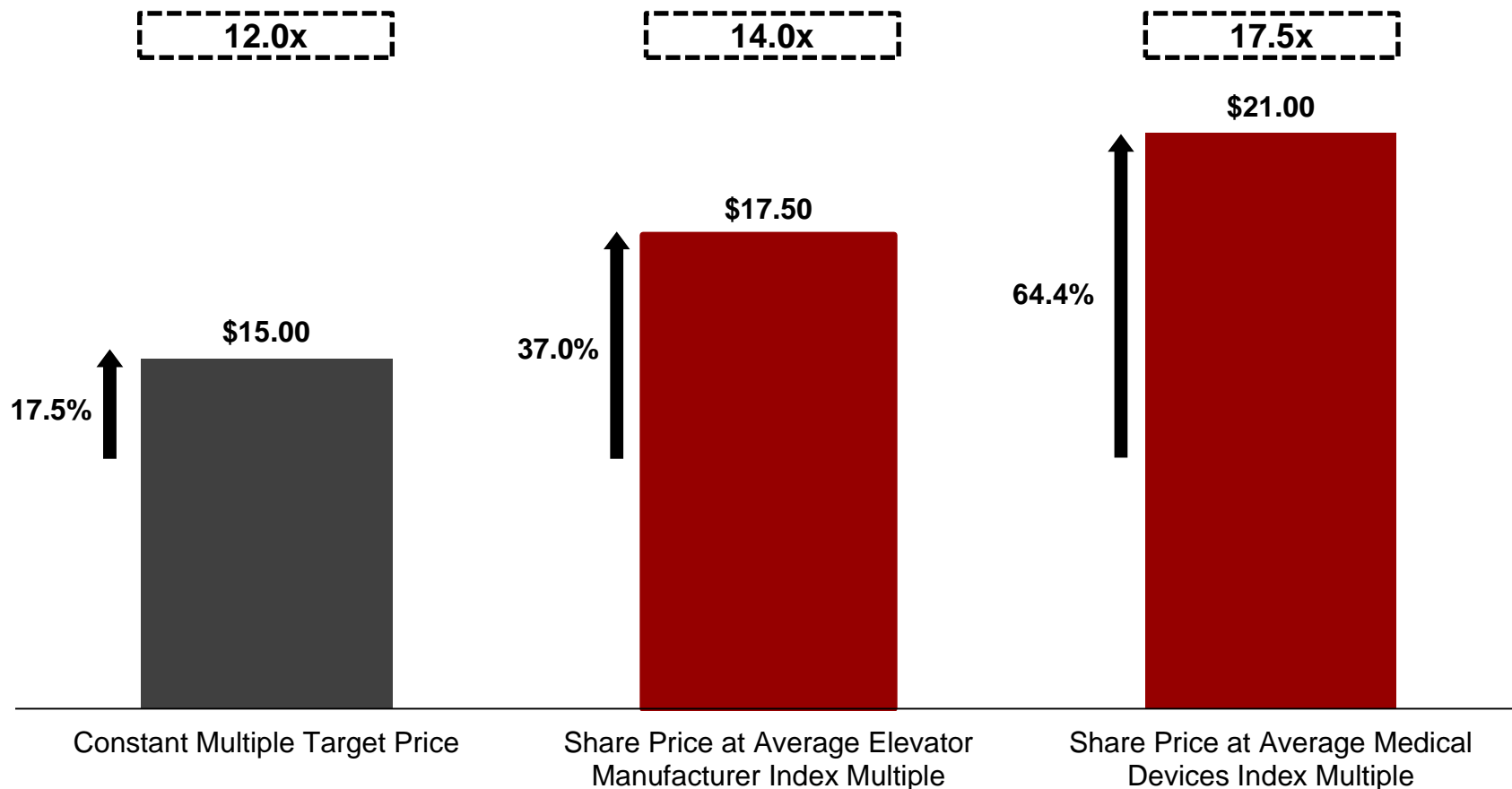
Savaria has traded between the valuations of medical devices and elevator manufacturers historically, though this trend has been disrupted over the past few years.

Source: Capital IQ, Company filings.

Multiples Re-Rating: Valuation Impact

Multiple re-rating impact on valuation and share price

Multiple Implied Valuation



Potential for a multiple re-rating greatly increases our potential upside – Savaria is still undervalued at its current market multiple, however.

Valuation

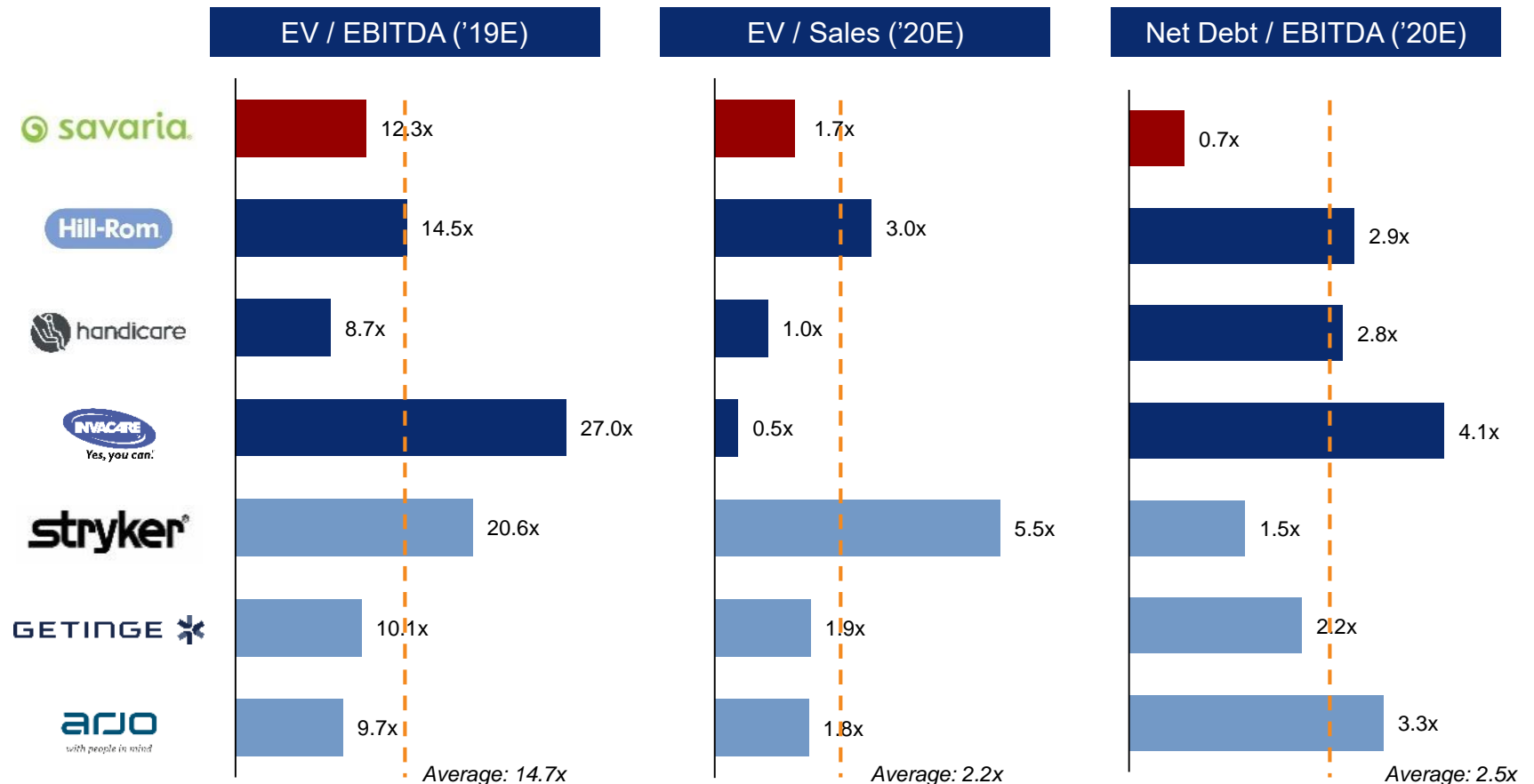
SECTION III



Accessibility: Valuation and Leverage Benchmarking

Valuation multiples and leverage ratio for accessibility peers

Accessibility Peers Benchmarking



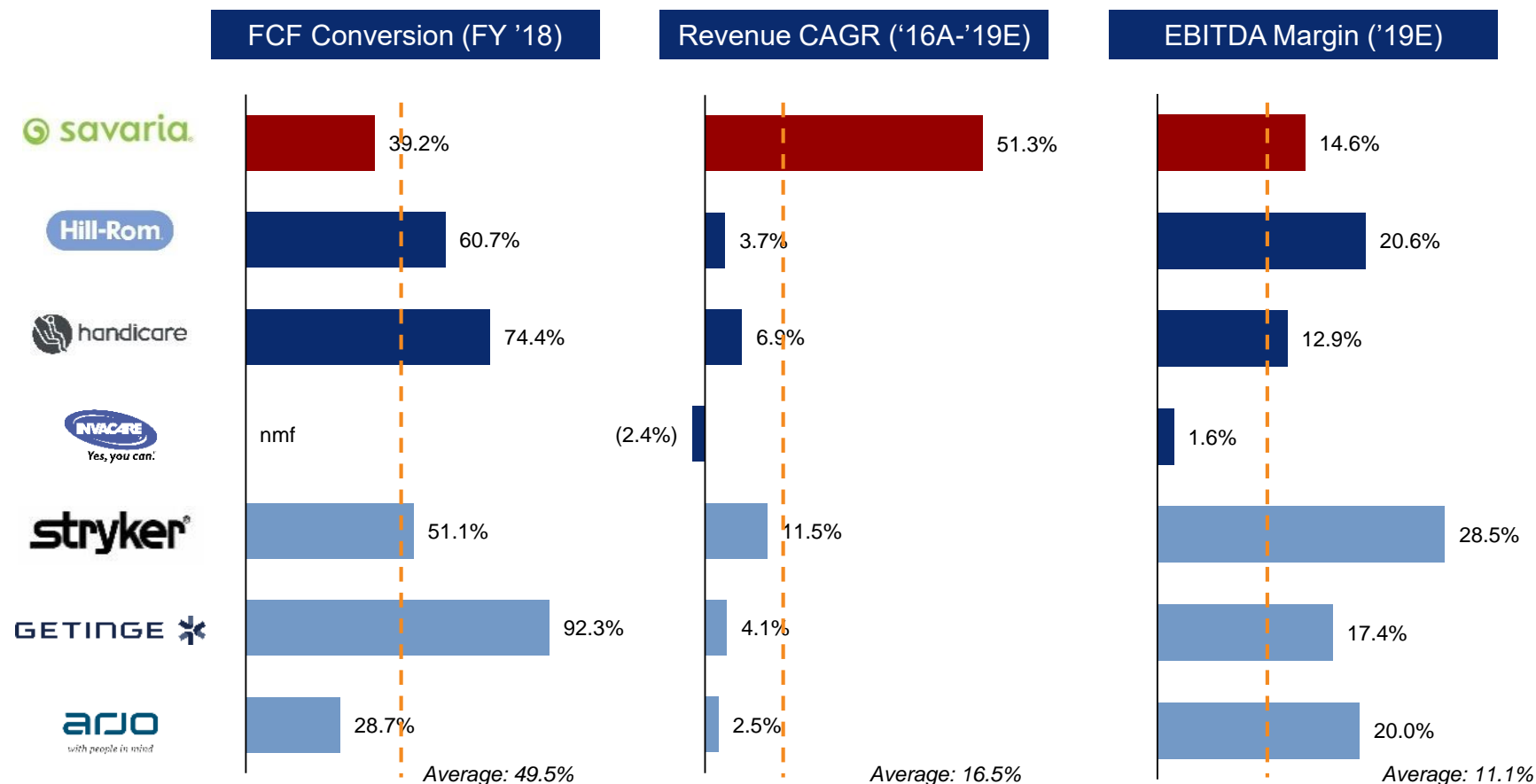
Savaria trades at a discount despite having the lowest leverage among peers.

Source: Capital IQ, Company filings.

Accessibility: Operational Benchmarking

Operational metrics for accessibility peers

Accessibility Peers Benchmarking



Savaria's high revenue CAGR and low FCF conversion is partly due to aggressive M&A activity over the last three years.

Source: Capital IQ, Company filings.

Accessibility: Comparables Analysis

Smaller, diversified players in accessibility

Accessibility market is highly fragmented with mostly private players

Peer Group	Ticker	Market Cap.	Enterprise Value	EV / Sales		EV / EBITDA		EBITDA Margin		EBITDA Gr. '18A - '20E	Net Debt / EBITDA	
				'19E	'20E	'19E	'20E	'19E	'20E		'19E	'20E
Hill-Rom Holdings	NYSE:HRC	8,969	11,427	3.0x	3.0x	14.5x	13.8x	20.6%	21.5%	6.0%	3.1x	3.0x
Invacare	NYSE:IVC	295	551	0.4x	0.4x	27.0x	9.0x	1.6%	4.8%	519.3%	12.5x	4.1x
Handicare	OM:HANDI	287	434	1.1x	1.0x	8.7x	7.9x	12.3%	12.9%	26.8%	3.1x	2.8x
Mean		3,184	4,137	1.5x	1.5x	16.7x	10.2x	11.5%	13.1%	184.1%	6.2x	3.3x
Stryker	NYSE:SYK	105,618	114,851	5.9x	5.5x	20.6x	19.0x	28.5%	29.0%	7.7%	1.7x	1.5x
Getinge AB	OM:GETI B	4,980	6,470	1.8x	1.7x	10.1x	9.7x	17.8%	17.9%	112.0%	2.2x	2.1x
Arjo AB	OM:ARJO B	1,496	2,324	1.9x	1.8x	9.7x	8.8x	19.9%	20.9%	17.8%	3.6x	3.3x
Mean		37,365	41,215	3.2x	3.0x	13.5x	12.5x	22.1%	22.6%	45.8%	2.5x	2.3x
Overall Median		3,238	4,397	1.9x	1.8x	12.3x	9.3x	18.8%	19.4%	22.3%	3.1x	2.9x
Overall Mean		20,274	22,676	2.3x	2.3x	15.1x	11.4x	16.8%	17.8%	114.9%	4.3x	2.8x
Savaria	TSX:SIS	643	690	1.8x	1.7x	12.3x	10.6x	14.6%	15.8%	32.1%	0.8x	0.7x



handicare



Savaria trading at a discount to peers despite low leverage, providing ample room for continued execution on their tuck-in and transformative acquisition strategy.

Source: Capital IQ, Company filings.

Valuation: DCF

EBITDA margin upside renders Savaria slightly undervalued

Discounted Cash Flow Model

Savaria	2019E	2020E	2021E	2022E	2023E	2024E	Term.
Unlevered Free Cash Flow							
Revenue	\$358.7	\$386.1	\$402.5	\$419.6	\$432.2	\$445.2	
EBITDA	\$53.8	\$59.8	\$66.4	\$69.2	\$73.5	\$75.7	
Less: Unlevered Taxes	(\$11.2)	(\$12.7)	(\$14.3)	(\$15.0)	(\$16.0)	(\$16.5)	
Less: Capital Expenditures	(\$17.9)	(\$19.3)	(\$16.1)	(\$16.8)	(\$17.3)	(\$17.8)	
Less: Change in Working Capital	(\$12.5)	(\$5.6)	(\$3.4)	(\$3.5)	(\$2.6)	(\$2.7)	
Unlevered Free Cash Flow	\$12.1	\$22.2	\$32.6	\$34.0	\$37.6	\$38.7	
Period Stub	20.6%	100.0%	100.0%	100.0%	100.0%	100.0%	
Cash Flow Date	30-Nov-19	30-Jun-20	30-Jun-21	30-Jun-22	30-Jun-23	30-Jun-24	
Time to Cash Flow	0.1	0.7	1.7	2.7	3.7	4.7	5.2
Discount Factor	1.0	1.0	0.9	0.8	0.8	0.7	0.7
PV of Unlevered Cash Flow	\$2.5	\$21.1	\$28.9	\$27.9	\$28.8	\$27.5	\$623.4
Revenue Growth (%)	25.4%	7.6%	4.2%	4.3%	3.0%	3.0%	
EBITDA Growth (%)	47.8%	11.2%	11.0%	4.3%	6.1%	3.0%	
EBITDA Margin (%)	15.0%	15.5%	16.5%	16.5%	17.0%	17.0%	

		Terminal EV / EBITDA Multiple				
		11.0x	11.5x	12.0x	12.5x	13.0x
Discount Rate (WACC)	6.5%	13.5%	17.5%	25.3%	29.2%	33.1%
	7.0%	13.5%	17.5%	21.4%	25.3%	29.2%
	7.5%	9.6%	13.5%	17.5%	21.4%	25.3%
	8.0%	5.7%	9.6%	13.5%	21.4%	25.3%
	8.5%	5.7%	9.6%	13.5%	17.5%	21.4%

		Terminal EV / EBITDA Multiple				
		11.0x	11.5x	12.0x	12.5x	13.0x
Discount Rate (WACC)	6.5%	\$14.50	\$15.00	\$16.00	\$16.50	\$17.00
	7.0%	\$14.50	\$15.00	\$15.50	\$16.00	\$16.50
	7.5%	\$14.00	\$14.50	\$15.00	\$15.50	\$16.00
	8.0%	\$13.50	\$14.00	\$14.50	\$15.50	\$16.00
	8.5%	\$13.50	\$14.00	\$14.50	\$15.00	\$15.50

Valuation Assumptions	
Valuation Date	17-Oct-19
WACC	7.5%
Terminal EV / EBITDA	12.0x
Valuation Summary	
Implied Enterprise Value	\$760.1
Less: Debt	(\$106.6)
Plus: Cash & Financial Assets	\$60.6
Implied Equity Value	\$714.1
FD Shares Outstanding	47.4
Implied Share Price	\$15.00
Implied Upside / (Downside)	17.5%
WACC Analysis	
Market Capitalization	\$605.1
Debt	\$106.6
Total Capital	\$711.7
Cost of Debt	4.9%
Debt-Weighting (%)	20.0%
Cost of Equity	8.0%
Equity-Weighting (%)	80.0%
WACC	7.4%
Unlevered Industry Beta	1.1
Levered Beta	1.3
Risk-Free Rate	1.6%
Market Risk Premium	5.0%

Source: Capital IQ, Company filings.

Valuation: Illustrative Sponsor IRR



Savaria may interest financial sponsors due to its attractive risk/return profile

LBO Model

Savaria	t = 0	2019E	2020E	2021E	2022E	2023E	t = 5
IRR Analysis							
EBITDA		\$53.8	\$59.8	\$66.4	\$69.2	\$73.5	
Less: Interest Expense		(\$17.9)	(\$17.7)	(\$16.9)	(\$15.9)	(\$14.6)	
Less: Taxes		(\$6.5)	(\$8.0)	(\$9.8)	(\$10.8)	(\$12.1)	
Less: Capital Expenditures		(\$17.9)	(\$19.3)	(\$16.1)	(\$16.8)	(\$17.3)	
Less: Change in Working Capital		(\$12.5)	(\$5.6)	(\$3.4)	(\$3.5)	(\$2.6)	
Levered FCF Pre-Amortization		(\$1.0)	\$9.2	\$20.2	\$22.3	\$26.8	
Less: Change in Debt		\$1.0	(\$9.2)	(\$20.2)	(\$22.3)	(\$26.8)	
Dividend		\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	
Period Stub		20.6%	100.0%	100.0%	100.0%	100.0%	
Date	17-Oct-19	30-Nov-19	30-Jun-20	30-Jun-21	30-Jun-22	30-Jun-23	31-Dec-23
Levered FCF		(\$336.3)	\$0.0	\$0.0	\$0.0	\$0.0	\$644.7
IRR							16.7%
Net Debt / LTM EBITDA		5.9x	5.2x	4.3x	3.8x	3.3x	
LTM EBITDA / LTM Interest		3.0x	3.4x	3.9x	4.4x	5.0x	

Pro Forma Debt Capacity Analysis

2019E EBITDA	\$53.8
Pro Forma Net Debt / EBITDA	6.0x
Current Debt	\$106.6
Incremental Debt Capacity	\$216.2

Sources and Uses Schedule

Purchase Equity Value	\$605.1
Current Debt	\$106.6
Minimum Cash Balance	\$5.0
Transaction Fees	\$3.1
Total Uses	\$719.8
New Debt	\$322.8
Current Cash	\$60.6
Sponsor Equity	\$336.3
Total Sources	\$719.8

Revolver Terms

Revolver Capacity	\$150.0
Drawn Amount	\$122.8
Drawn Fee	5.5%
Standby Fee	0.5%

Term Loan Terms

Unamortized Term Loan	\$200.0
Interest Rate	5.5%
Paydown	100.0%

Exit Multiple

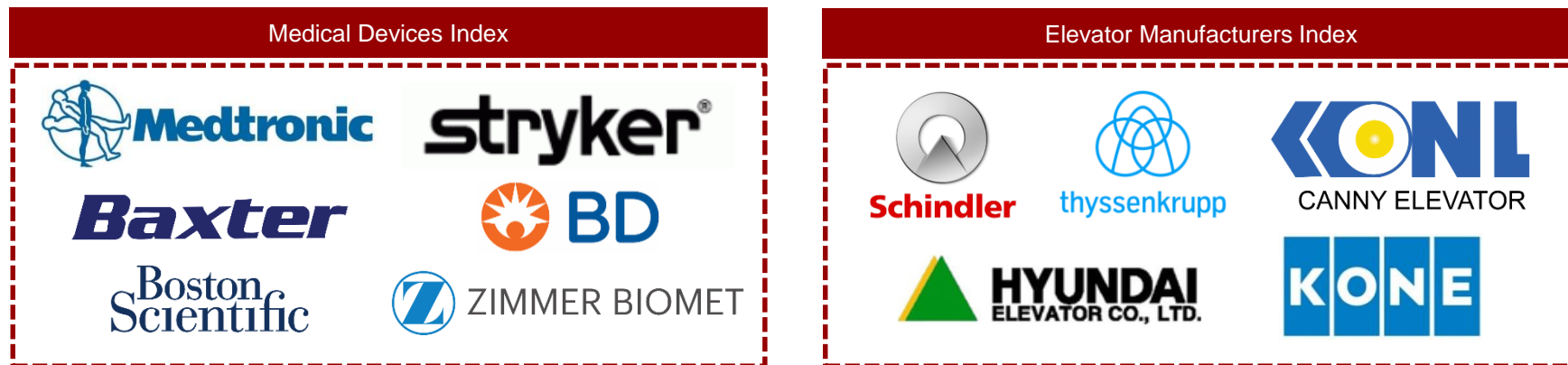
Exit EV / LTM EBITDA	12.1x
Current Multiple	12.1x
Exit Proceeds	\$889.2

Source: Capital IQ, Company filings.

Valuation: Upside and Downside by Case

Savaria at fair value even if margin benefits and re-rating do not materialize

Index Constituents



Multiples Re-Rating Scenarios

		Industry	EV/EBITDA Multiple	PV of Terminal Value	Implied Share Price	Upside
Bear Case	Current		12.0x	\$550M	\$13.00	1.8%
	Without Margin Improvement	Medical Devices	17.5x	\$802M	\$18.50	44.9%
		Elevator Manufacturer	14.0x	\$642M	\$15.00	17.5%
Base Case	Current		12.0x	\$623M	\$15.00	17.5%
	With DCM Margin Improvement	Medical Devices	17.5x	\$909M	\$21.00	64.4%
Bull Case		Elevator Manufacturer	14.0x	\$727M	\$17.50	37.0%

Source: Capital IQ, Company filings.

Appendix

SECTION IV

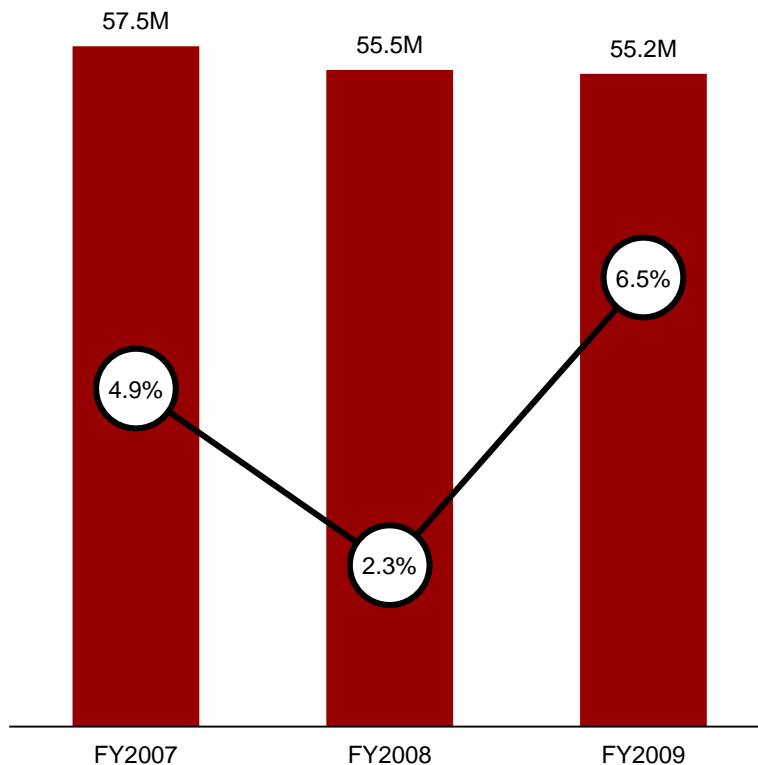


Multiples Re-Rating

Recession and recent performance

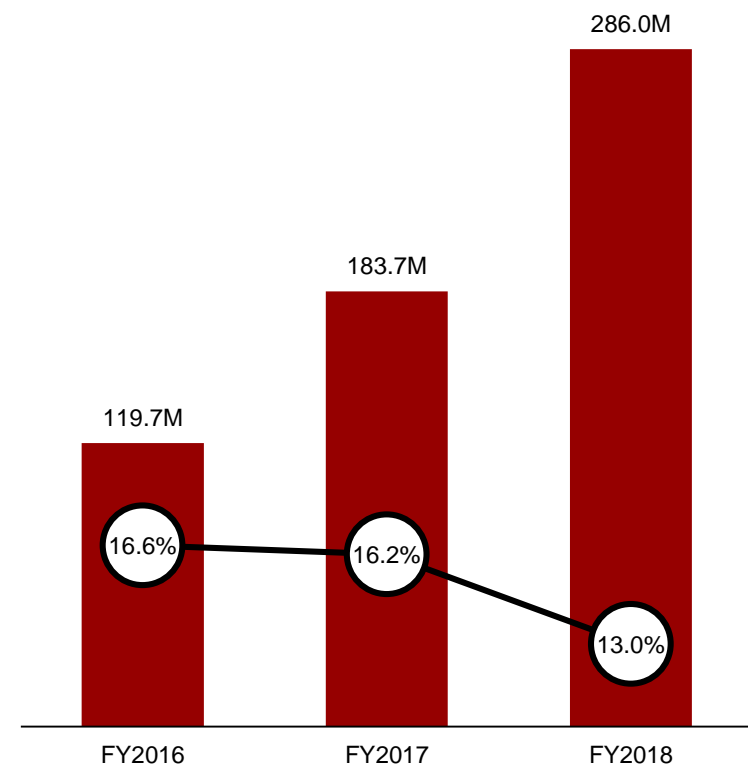
'07-'09 Recession

■ Revenues —●— EBITDA Margin



'16-'18 Last 3 Years

■ Revenues —●— EBITDA Margin



Savaria revenues dipped slightly during the recession but have since grown tremendously in the few years

Source: Capital IQ, Company filings.

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