DSR STOCK CARD

12/15/2022

SAVARIA (SIS.TO)

Business Model

SIS designs, engineers, and manufactures products for personal mobility. Its products include home elevators, wheelchair lifts, commercial elevators, ceiling lifts, stairlifts, and van conversions. SIS's operating segments are the Accessibility, Adapted Vehicles, and Patient Handling divisions. The Accessibility segment deals with manufacturing, designing, installing, and distributing elevators, platform lifts, and stairlifts for people with mobility challenges. The Patient Handling segment includes the manufacturing and distribution of a comprehensive line of therapeutic support surfaces and other pressure management products for the medical market.

The Company in a Nutshell

- As the demographic of elderly people grows, Savaria will enjoy a strong demographic tailwind.
- Savaria has developed expertise in acquiring companies to improve and expand its product offerings.
- Savaria is the only company in this industry to offer solutions for home use, public spaces, and vehicles.

Investment Thesis

If an investor is looking for a company with an aggressive growth plan through acquisitions and one that is surfing on a substantial tailwind, they may find it with Savaria. Through various acquisitions, SIS has grown its revenues by more than 300% over the past 5 years. Savaria has a solid balance sheet and leveraged it to make recent acquisitions. The CEO is quite optimistic for the future as he envisions a large pipeline of M&A deals. Savaria boasts a strong dividend triangle and should continue to raise its dividend in the future. Don't allow temporary tailwinds (lost production hours due to covid and inflationary pressure) change your mind.

VALUATION

Dividend Growth Rate Years 1-10: 5% **Terminal Dividend Growth Rate:** 6%

	Discount Rate (Horizontal)		
Margin of Safety	**9.00%**	**10.00%**	**11.00%**
20% Premium	$20.26	$15.25	$12.24
10% Premium	$18.58	$13.98	$11.22
Intrinsic Value	$16.89	**$12.71**	$10.20
10% Discount	$15.20	$11.44	$9.18
20% Discount	$13.51	$10.17	$8.16

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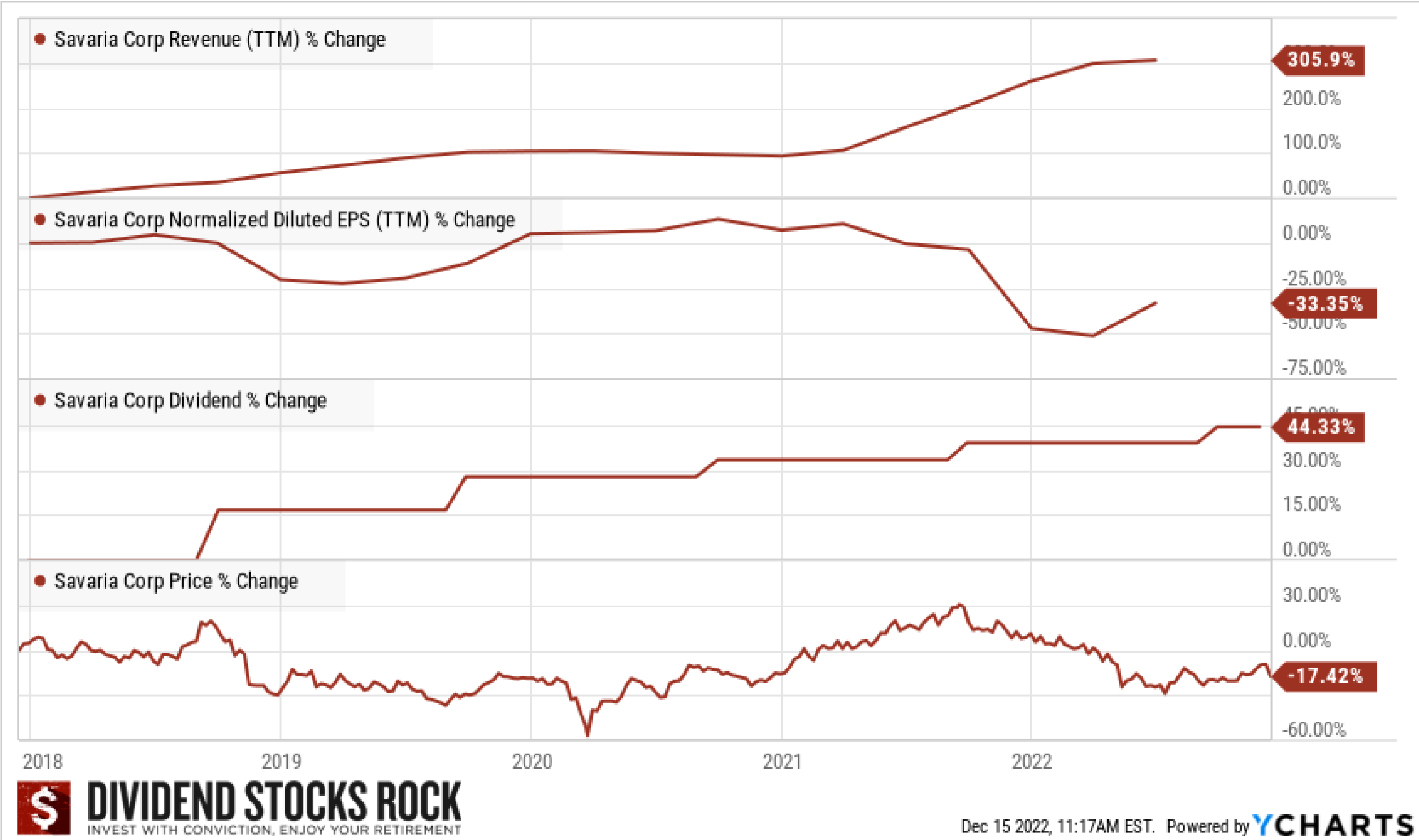

Potential Risks

With small companies, there is often the risk of a potential tendency toward greed. Growing through acquisitions is a sound strategy but could lead to volatile results in difficult times if the business isn't strong enough to handle periodic roadblocks. So far, Savaria has proven that it can do this well and has managed its growth successfully. More acquisitions may also mean less cash for dividend increases. Furthermore, SIS' Span division was hit by a significant increase in foam prices. From now on, this business segment will have to deal with tighter margins and this is being reflected with weaker earnings per share in the past quarters. Keep in mind that small-caps like Savaria are also subject to high volatility.

Dividend Growth Perspective

The company appears to be more focused on growing through acquisitions and consolidating its leadership position in a growing market. This is where most of their cash flow will be directed and there may be less funds available for dividend increases. The company didn't cut its dividend in 2017, but they did increase it by 38% and switched over to a monthly payment. Savaria increased its dividend by 3.8% in 2022, which is below our expectation. Then again, an investment in SIS is not solely about the dividend. It's also about the revenue growth potential, and one should willingly accept a decent yield with steady increases that will likely come with commensurate capital appreciation.