



STOCKTRADES PREMIUM COMPANY SUMMARY

SAVARIA

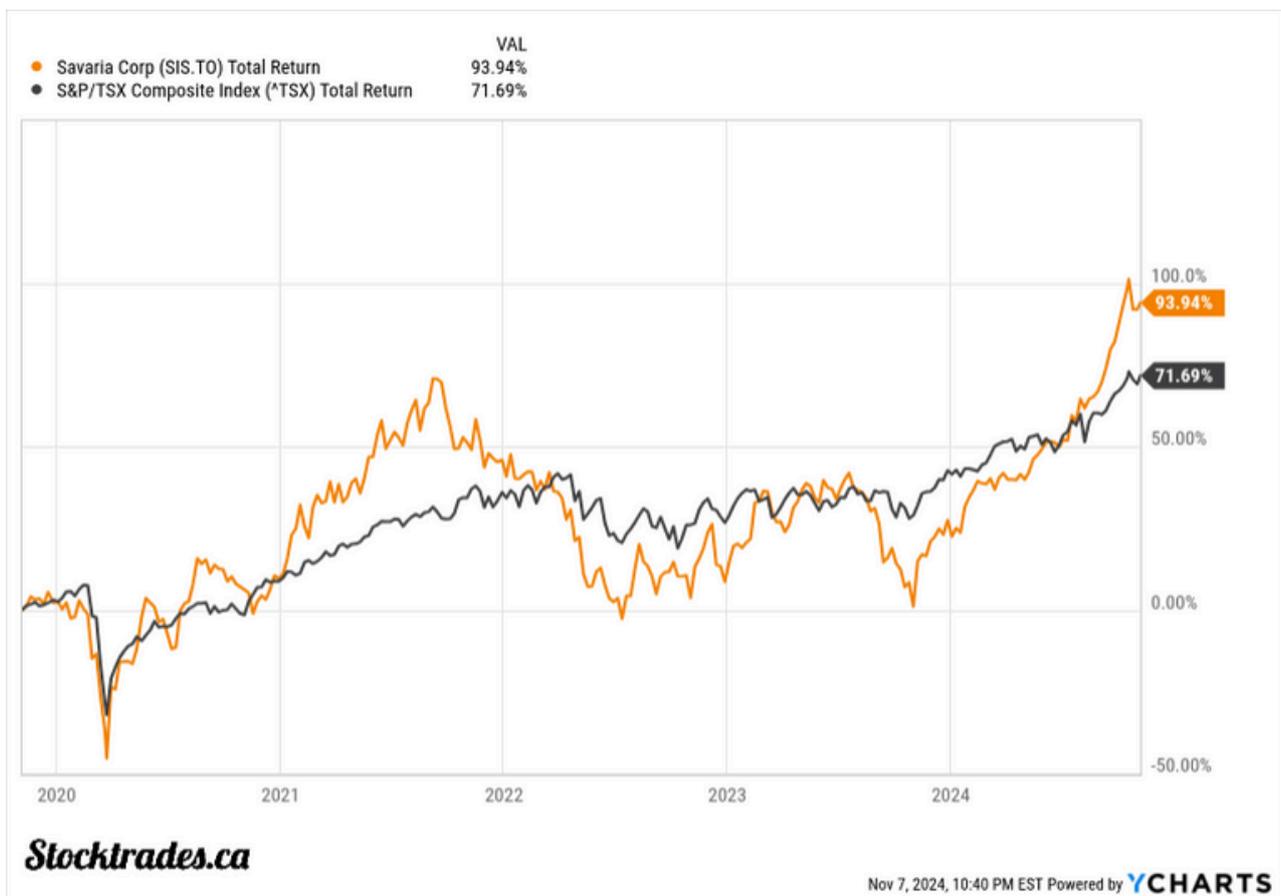
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Savaria Corp designs, engineers, and manufactures products for personal mobility. Its products include home elevators, wheelchair lifts, commercial elevators, ceiling lifts, stairlifts, and van conversions. The company's operating segments are the 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 Adapted Vehicle segment adapts vans to be wheelchair accessible 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.

Focus Areas	Score (0/100)	Focus Areas	Score (0/100)
Valuation	48	Dividend	72
Profitability	59	Outlook	100
Risk	34	Debt	42
Returns	28	Growth	73
Overall	59		

*Our Risk Rating: Our opinion of the overall risk an investment presents. Can be shown as Defensive (DEF), Moderate (MOD), or Aggressive (AGG). By no means is this an indication of future potential gains or lower volatility.

PROS

- Aging population bodes well for future sales
- Government is forcing companies to comply with new accessibility rules
- The company pays a monthly dividend
- Recent acquisition of Swedish company Handicare is working out very well
- In terms of publicly listed companies, Savaria faces little competition
- Margins have improved materially over the last year
- Savaria posted its best year on record in Fiscal 2023, and is off to a torrent pace in 2024
- Debt ratios reduced significantly. However, this was because of a share offering
- Small caps are still trading at their largest discount relative to large caps in more than 2 decades

CONS

- The industry is still young and Savaria could be exposed to competition in the future
- Payout ratios are improving, but still high
- Has frustrated shareholders with share offerings and missed expectations
- Inconsistent cash flow generation
- Although debt is reducing, as mentioned the company did so through a share offering, which generally had a muted reaction from shareholders

OVERALL THESIS

There's no question that the global population is getting older. A 2018 report from the World Health Organization states that by 2050, the number of humans aged 60 years or older will exceed 2 billion, more than double the numbers at that time. They even went as far as to say there will be more humans over the age of 60 than there will be children younger than 5.

In Canada, the government predicts that seniors will make up 23% of the population in 2030. Being primarily a mobility company, Savaria stands to benefit from this significantly.

Over the last 10 years, Savaria has grown revenue by a compound annual growth rate (CAGR) of ~24%. These numbers span a decade-long time frame and are a growth investment dream.

Let's look at the last 5 years. While lower, the numbers are still rock solid with a revenue CAGR rate of 17.5% as the company continues to find transformative acquisitions, like the most recent acquisition of Handicare. This will add significant numbers to Savaria's top and bottom lines and will likely be a continued driver for growth over the next few years.

POTENTIAL RISKS

Even though shutdowns and the pandemic are practically over, the company is now facing rising material prices due inflation issues that still persist in 2023. Like the shutdowns, these issues will undoubtedly be transitory. However, we expect them to continue to impact margins and operating results over the short term.

Equipment, especially for people with mobility issues, has the potential to malfunction and potentially cause injuries or fatalities. This exposes the company to litigation issues moving forward. Quality is paramount with Savaria, and any equipment malfunctions must be dealt with promptly.

Beta	0.94
Alpha	5.53
Our Risk Rating	Mod*
Max Drawdown	62.1%

Another risk is tied to these significant acquisitions. A few years ago, the company had a difficult time with one of its acquisitions. The synergies it expected to achieve didn't materialize as quickly as needed, and that resulted in a period of underperformance. Eventually, the company did achieve synergies, but it took longer than expected.

Given the size of the Handicare acquisition, the risk is higher, and we already see short-term acquisition expenses increase. Although the fears seem to be subsiding in 2023 because of operational improvement, investors seem to be still weary that the same issues the company experienced a few years ago will happen again.

And finally, we can look to interest rates as a considerable risk with a company like Savaria. The company took on a significant amount of debt, over \$300M, to acquire Handicare. As rates stay elevated, this debt will become more expensive and may erode the bottom line.

Finally, share offerings have been a persistent issue with Savaria, with its most recent being to pay down debt levels. Although share offerings are not necessarily a risk from an operational standpoint, they are a risk in terms of overall returns. Although we'd expect Savaria to reduce the amount of share offerings in the future now that the debt situation has improved materially, there is added risk it continues to issue moving forward.

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VALUATION

	TTM	5 Year Average	Industry Average
P/E	34	29.9	36
P/S	1.8	1.53	1.64
P/B	2.75	2.42	1.78
P/FCF	15	19.2	N/A
PEG Ratio (FWD)	0.49	N/A	N/A

Savaria is a tricky company to evaluate on a trailing basis because the company was impacted severely by the COVID-19 pandemic and its Handicare acquisition. Fiscal 2020 was the first year since the 2008 financial crisis that the company did not grow its top line by double digits annually. When we look to 2021 and 2022, a large amount of revenue was generated via the Handicare acquisition.

However, trailing valuations continue to drop, highlighting that pandemic and acquisition-related issues are finally starting to subside, particularly margins. The company's price-to-earnings ratio and its price-to-free cash flow continue to decrease.

Growth-by-acquisition companies are challenging to value on a discounted cash flow basis, especially when the acquisition was so significant that it nearly doubled the company's size in the case of Handicare.

Running multiple scenarios that primarily have Savaria growing cash flow by high single digits annually leads to a fair value in the \$19 range. This would lead one to believe that Savaria is overvalued at this point. However, with the material improvements to margins, fair value could easily be scaled up to \$22-\$23 a share. I'd just like to see the company perform for a few more quarters before I'd be comfortable assigning that.

Unfortunately, the company is known to issue shares frequently. Over the last 3-4 years, it has done so to fuel significant acquisitions. So, it's been done with good intent. However, it's hard to predict an accurate fair value without knowing how many shares will be outstanding in 5 years. Additionally, acquisitions are tough to factor into future cash flow projections. Impacts can be significant or non-existent, both of which will greatly affect DCF calculations.

We feel share dilution will slow extensively as the company will not be as acquisition-heavy. Once things are sorted out on the Handicare front and synergies are realized, cash flows have a chance to grow even larger than our projections.

Overall, we're willing to take the bullish side with Savaria and say that the company's fair value is higher than it trades at today, but we would like to see some margin stabilization before we assign a confident fair value.

COMPETITOR ANALYSIS

On a publicly-traded basis, Savaria has relatively little competition. It is a rarity for a small-cap company to have an economic moat like this, but Savaria does, especially with the acquisition of Handicare.

Keep in mind that Savaria not having any direct, publicly traded competitors now does not mean it will not have any in the future. This is a fast-growing industry, and major competition could materialize in the future.

DIVIDEND ANALYSIS

Annual Dividend	FCF Payout Ratio	5 Year Dividend Growth %	Dividend Growth Streak
\$0.54	38%	10.2%	12

Savaria is a Canadian Dividend Aristocrat with eleven consecutive years of dividend growth. Because of the current runup in price, its current yield is not as attractive as it once was, but it is still reasonable for a growth play.

Of note, Savaria pays a monthly dividend, a bonus for some.

It is important to note that while its five-year dividend growth rate sits at 10.2% annually, dividend growth has slowed materially in the last few years because of the pandemic and the acquisition of Handicare. The company last raised the dividend in August of 2024, and it was a small 3.8% raise.

The company likely did this to keep its Dividend Aristocrat status alive, as if it didn't raise in 2024 it would have been removed. However, it now has a 12 year growth streak.

Continue to expect low single-digit dividend growth at maximum from Savaria as it prioritizes debt reduction and possible further acquisitions over dividend growth. If synergies from Handicare go well and the company manages to reduce its overall debt load, it will likely return to double-digit growth. For now, we'd like to see the company reduce debt first.

Now that the pandemic and inflationary headwinds are starting to subside, we are seeing better dividend coverage ratios. In 2022, payout ratios often exceeded 180% of free cash flow and 110% of earnings. However, as of its most recent quarter, they come in at 38% and 82%, respectively.

RECENT EARNINGS

Earnings Estimates	2024	2025	2026
EPS	\$0.86	\$1.22	\$1.39
Revenue	\$868M	\$956M	\$1.01B
EBITDA	\$160M	\$188M	\$205M
EBITDA Margins	18.5%	19.6%	20.2%

After posting one of its stronger quarters in Q3, Savaria generally missed the mark in Q4. Revenue of \$213M was below the \$222M expected, and earnings per share of \$0.18 missed estimates for \$0.2475.

The stock price took a reasonable step back on the earnings report, but I'd view this as nothing more than a healthy consolidation. Savaria is a company that is well known to miss estimates, and with the run it has had in 2024, I'm not surprised to see it give a little back on soft earnings.

Revenue grew by 1.7%, but most of that was due to currency fluctuations. The lack of revenue growth here is primarily due to the company divesting and selling a few of its business operations, which made up around \$15M of annualized revenue.

The bright spot was the fact that margin expansion (one of my key theses for Savaria) in a post-pandemic and post-inflation economy continues to excel. Gross margins came in at 37%, a 2.5% increase on a year-over-year basis, and overall, through the first 9 months of the year, margins came in 2.8% higher. This is resulting in a 26%+ bump in earnings per share.

The company's leverage ratio continues to decline as it tackles debt repayments post-Handicare acquisition. From peak levels of \$396M in 2022, the company has gotten its debt down to \$258M in 2024. This is from a combination of utilizing free cash flow to pay down debt along with a share offering to fuel debt reduction as well. The company's leverage ratio is down from 2.07x to 1.69x. The lower, the better.

I'm not all that upset that Savaria issued shares to prioritize debt reduction. The company's shares at the time were near all-time highs, and equity issuances during that can be seen as advantageous, especially when they're used to reduce high-interest debt.

The company reiterated its targets of \$1B in revenue and \$200M in adjusted EBITDA for next year.

It was a soft quarter, but the underlying numbers still support my long-term thesis for Savaria. The company remains one of the core growth stocks in my portfolio.

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