



## **SAVARIA CORPORATION**

### **Management's Report**

For the Three and Six-Month Periods Ended June 30, 2016

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## 1. Basis of Presentation

This management's report is designed to assist the reader in better understanding the business of Savaria Corporation, its business context, its strategies, its risk factors and its key financial results. It notably discusses the Corporation's financial position and operating results for the three and six-month periods ended June 30, 2016, in comparison with that for the corresponding period of fiscal 2015. It also provides a comparison of its statements of financial position as at June 30, 2016 and December 31, 2015. Unless otherwise indicated, the terms "the Corporation", "Savaria", "We" and "Our" refer to Savaria Corporation and its subsidiaries.

Prepared in accordance with *National Instrument 51-102 – Continuous Disclosure Obligations*, this report should be read in conjunction with the unaudited condensed consolidated interim financial statements for the second quarter 2016 and accompanying notes, and with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2015 and the management's report for the same period. Unless otherwise indicated, all amounts are expressed in Canadian dollars and all amounts in tables are in thousands of dollars, except per share amounts.

The financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") and the management's report have been reviewed by Savaria's Audit Committee and approved by its Board of Directors and not reviewed by the auditor of the Corporation.

This management's report was prepared as at August 10, 2016. Additional information, including the Annual Information Form, is available on SEDAR's website at [www.sedar.com](http://www.sedar.com).

## 2. Forward-Looking Statements and Disclaimer

Certain statements in this management's report may be forward-looking. Forward-looking statements involve known and unknown risks, uncertainties or other factors that may cause the Corporation's actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The reader is warned against the risk of giving excessive credibility to these forward-looking statements.

## 3. Compliance with International Financial Reporting Standards

The Corporation's financial statements have been prepared in accordance with IFRS. However, the Corporation uses non-IFRS measures such as EBITDA, EBITDA per share, working capital, current ratio, book value per share, cash per share and total net debt to invested capital ratio for analysis purposes to measure its financial performance. EBITDA means earnings before interest, income taxes, depreciation and amortization ("EBITDA") while EBITDA per share means EBITDA per average diluted number of common shares outstanding. Adjusted EBITDA means EBITDA as defined above before business acquisition costs while adjusted EBITDA per share means adjusted EBITDA per average diluted number of common shares outstanding. The Corporation uses adjusted EBITDA because it believes that it is a meaningful measure of its operating performance without the effects of acquisition costs. Reconciliation between net income and EBITDA and adjusted EBITDA is provided in section 8, *Summary of Quarterly Results*. Working capital is defined as the result of current assets less current liabilities while the current ratio is defined as the result of current assets divided by current liabilities. Book value per share corresponds to the result of shareholders' equity divided by the number of shares outstanding at the

end of each quarter and cash per share corresponds to the result of cash divided by the number of shares outstanding at the end of each period.

Total net debt to invested capital ratio is the result of the total of long-term debt less the net result of cash and bank loans (“numerator”) divided by the total of shareholders’ equity and the numerator.

Although management, investors and analysts use these measures to evaluate the Corporation’s financial and operating performance, they have no standardized definition in accordance with IFRS and should not be regarded as an alternative to financial information prepared in accordance with IFRS. These measures may therefore not be comparable to similar measures reported by other companies.

## 4. Business Overview

Savaria is one of North America's leaders in the accessibility industry. It provides accessibility solutions for the elderly and physically challenged to increase their mobility and independence. The diversity of its product line, one of the most comprehensive on the market, includes stairlifts, wheelchair lifts, and residential and commercial elevators and the conversion and adaptation of vehicles. The Corporation, whose headquarters along with the plant operated by the subsidiary Van-Action are located in Laval (Quebec), has four other facilities, including a 125,000-square-foot plant in Brampton, Ontario, a 75,000-square-foot plant in Huizhou, China, and two sales offices in London, Ontario, and Calgary, Alberta.

### Operating Segments of the Corporation

The Corporation manages its operations under two operating segments, the main one being the *Accessibility* segment. These segments are structured according to the market segments they address.

- **Accessibility Segment (87% of Revenue in 2015)**

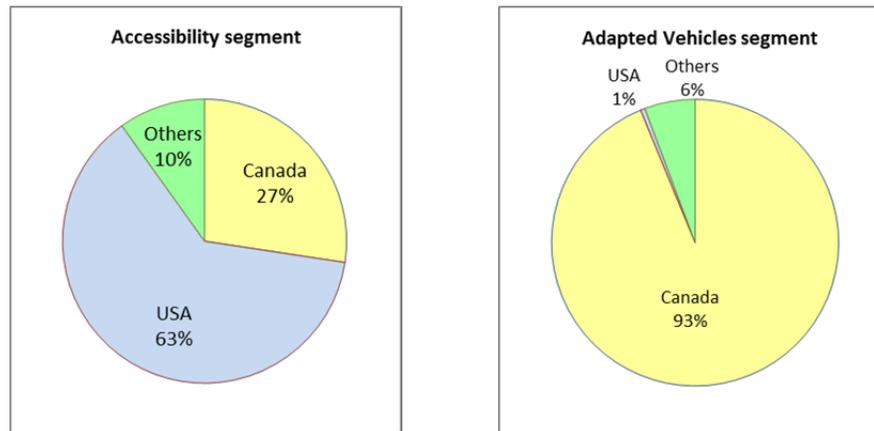
Through its *Accessibility* segment, the Corporation designs, manufactures, distributes and installs accessibility products such as stairlifts for both straight and curved stairs, vertical and inclined wheelchair lifts and elevators for home and commercial use. The products are manufactured, assembled and customized at the Brampton (Ontario) plant, and are offered through a network of some 300 active retailers, which are primarily located in North America. The Huizhou (China) plant is the main supplier of parts and components for the Brampton subsidiary; also, it assembles product components and finished products mainly for the benefit of the Corporation and for the sale of products on the Asian and European markets. Operation of this Chinese subsidiary provides a competitive advantage to Savaria. Through its Silver Cross division, the Corporation operates a network of franchises and corporate stores in which new and recycled accessibility equipment is sold, and a lead generation program to capture and distribute leads on potential customers to close to 100 affiliates in North America.

- **Adapted Vehicles Segment (13% of Revenue in 2015)**

Through its *Adapted Vehicles* segment, the Corporation converts and adapts minivans to facilitate the transport of mobility challenged people via its Van-Action (Laval, Quebec) and Freedom Motors (Brampton, Ontario) subsidiaries. Its new Silver Cross Automotive subsidiary, through which were acquired in May 2016 the assets of the automotive division of *Shoppers Home Health Care* (a division of *Shoppers Drug Mart*) distributes converted vehicles in the Ontario, Alberta and British Columbia retail markets. The product line-up includes models with rear entry, side entry or dual entry. By adding a ramp and lowering the floor, minivans become accessible to people in wheelchairs. They can be used for personal or commercial purposes.

## Revenue Breakdown per Segment per Region

For the first six months of fiscal 2016, Savaria's total revenue was recorded in the United States (53%), Canada (38%) and, to a lesser extent, outside North America (9%). Revenue breakdown per region by segment is as follows:



Revenue for the first six months of 2016 amounts to \$47.4 million ("M") for the *Accessibility* segment and \$8.9 M for the *Adapted Vehicles* segment, for total revenue of \$56.3 M. In this report, unless specifically mentioned, the analysis covers both segments.

The Corporation employs some 500 employees and its shares are listed on the Toronto Stock Exchange under the symbol SIS.

## 5. Business Context

### A Fast-Growing Market due to the Aging of the Population

Equipment designed for the accessibility market is sold to wheelchair users and to elderly people with mobility challenges for whom stairs and raised building entrances are major obstacles. The number of people requiring accessibility products will therefore steadily grow as the population continues to age.

According to a 2011 Canadian census, 5 million people – representing 14.4% of Canada's population – were 65 years and older compared with 3.9 million or 12.6% just a decade earlier. These numbers are expected to continue rising with a projected 8.4 million people – or 20.8% of Canada's population – 65 years and older by 2026. Similar, although less pronounced, trends are noticed in the United States. A 2011 U.S. census indicated that 40 million people – representing 12.8% of the U.S. population – was 65 years and older compared with 34 million or 12% a decade earlier. Projections for the year 2025 indicate that 65 million people – representing 18.7% of the U.S. population – are expected to be 65 years and older.

Consequently, the number of people requiring accessibility equipment will grow, for several reasons. Firstly, the older population is growing and people's life expectancy increasing. According to an *Organisation for Economic Co-operation and Development* ("OECD") study titled *Health at a Glance 2013*, some twenty-four countries now have an average life expectancy of 80 years and over. Secondly, seniors are increasingly well-off and will hence have the means to adapt their own homes in order to remain there. Based on the same 2011 censuses as above, 92% of Canadians and 96% of Americans 65 years and older lived in private households or dwellings with

the balance living in collective dwellings. Finally, the family structure and care of aging people are changing, increasingly requiring accessibility equipment to be installed in these people's homes and public buildings.

Alternatively, Statistics Canada indicates that 7.2% of Canadians of all ages currently suffer from some type of mobility disability. Similarly, 6.9% of Americans suffer some form of ambulatory disability. In keeping with the aging of the population, the proportion of people with disabilities is expected to increase in the coming years.

These fundamental changes will definitely have a major impact on the demand for accessibility products. What's more, because of the aging population and high cost of living in institutions for people with mobility challenges, various public and private organizations in both the United States and Canada could reimburse the cost of such devices, as is common today in some European countries.

Along with demographic factors, the demand for accessibility products is also affected by economic conditions and the strength of home and institutional construction.

Since most of the Corporation's products are custom-made, large-scale manufacturing and imports are not a serious threat. Although competing products are of a high quality and sold at competitive prices, Savaria stands apart for its operational flexibility, the reliability and safety of its products and the quality of its after-sales service.

The retail market, meanwhile, is highly fragmented. There are over a thousand resellers of accessibility products in North America.

## **6. Vision, Mission and Strategy**

### **Our Vision**

Remain a leader of the North American market for personal mobility products. Distribute the most extensive line of products designed to increase personal mobility; that line of products having the reputation of being the safest and most durable on the market. Develop and maintain a customer-driven culture, which recognizes and respects the needs and desires of our customers, end-users and employees. Strategically expand around the world in order to grow revenues and optimize purchasing power.

### **Our Mission**

To design, engineer, manufacture and market high-quality reliable and customized accessibility products, elevators and wheelchair adapted vehicles that improve personal well-being and mobility. To always provide a business culture and environment based on customer-driven principles, teamwork and mutual respect.

### **Our Strategy**

To keep and secure its position among the leaders of the North American market for personal mobility products, Savaria executes several strategies.

- Savaria regularly develops and markets new products, providing its 400 active distributors and affiliates and its Canadian direct sales centres with the most extensive product selection in the industry.

Achievements:

- Design of a new vehicle conversion, based on the frame of the Ram ProMaster, carrying up to 7 passengers, including three in wheelchairs; this product, which differs from our existing conversions due to its greater passenger capacity, is being introduced to this new market.

- Design of a new stairlift for straight stairs, the *K2*, which addresses different needs than our existing *SL-1000* model; the *K2* was introduced to market during 3<sup>rd</sup> quarter of 2015.
- Savaria stays abreast of business opportunities in the accessibility market, such as strategic acquisitions, that would give it the opportunity to extend its range of products, to acquire new brands, or to increase revenue of its existing products.

Achievements:

- Purchase of the assets of the automotive division of *Shoppers Home Health Care*. This transaction opened the door to new markets in the vehicle conversion industry.
- Savaria actively stays at the cutting edge of technology, to remain competitive and to provide its customers innovative tools, allowing it to optimize its business processes and to simplify the work of its dealers.
- Lastly, Savaria constantly strives to optimize its cost structure to increase profitability and production capacity.

Achievements:

- Acquisition of a 57,000-square-foot building in Laval (Quebec) to bring together the activities of the head office, of direct sales for the Montreal region, and of vehicle conversion. This new location allows a 50% capacity increase of side entry van conversions and of the new conversion model based on the chassis of the Ram ProMaster.

The Corporation is exposed to various business risks which could have an impact on its ability to maintain its current market share and profitability, as well as to achieve its short-term and long-term strategic objectives. These risks are described in section 16 "*Risks and Uncertainties*".

## 7. Second-Quarter 2016 Highlights

Second quarter results including Revenue, Operating income and adjusted EBITDA reached unprecedented levels.

### Revenue up 23.2%

For 2<sup>nd</sup> quarter of 2016, revenue is up \$5.7 M, at \$30.1 M, compared to \$24.4 M same quarter previous year.

### Operating income up 24.9%

Operating income is up \$769,000, at \$3.9 M, for 2<sup>nd</sup> quarter of 2016, compared to \$3.1 M same quarter previous year.

### Net income up 28.5%

Net income is up \$613,000, at \$2.8 M, for 2<sup>nd</sup> quarter of 2016, compared to \$2.2 M same quarter previous year.

### Ajusted EBITDA up 44%

The Corporation's adjusted EBITDA amounted to \$5.1 M for 2<sup>nd</sup> quarter of 2016 compared to \$3.5 M same quarter previous year, an increase of \$1.6 M. Reconciliation between net income and adjusted EBITDA is provided in section 8, *Summary of Quarterly Results*.

## **Dividend**

In 2<sup>nd</sup> quarter of 2016, the Board of Directors declared a quarterly dividend of 5 cents (\$0.05) per share, in accordance with its dividend policy.

## **Private placement**

During the second quarter, the Corporation completed a bought deal private placement resulting in the issuance of 2,600,000 common shares and net proceeds of \$19.1 M (refer to *Available Sources of Financing* in section 10).

## **Acquisition of the assets of the automotive division of *Shoppers Home Health Care* ("SHHC")**

On May 31, 2016, through its wholly owned subsidiary Silver Cross Automotive Inc., Savaria acquired the assets of the automotive division of SHHC (a division of *Shoppers Drug Mart*) for a cash consideration of \$8.7 M. This strategic acquisition will result in a consolidated and greater presence for Savaria in Canada through its Silver Cross brand. The Corporation will have seven new corporate stores in Victoria, Vancouver, Edmonton, Calgary, London, Waterloo and Toronto that will feature van conversions as well as Savaria elevator and lift products. These "super Silver Cross" locations will satisfy virtually all the accessibility needs of its target clientele with a comprehensive line of products to improve mobility inside and outside of the home.

## 8. Summary of Quarterly Results

Selected financial information for the last eight quarters is presented in the following table.

(in thousands, except per-share amounts and percentages – unaudited)	2016		2015				2014	
	Quarter 2	Quarter 1	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Quarter 4	Quarter 3
Revenue	<b>\$30,086</b>	\$26,216	\$26,605	\$24,002	\$24,422	\$20,234	\$21,497	\$21,747
<i>Gross margin as a % of revenue</i>	<b>32.6%</b>	32.3%	32.7%	30.6%	30.5%	30%	30.9%	31.2%
Operating costs <sup>(1)</sup>	<b>\$5,285</b>	\$4,846	\$5,061	\$4,483	\$4,373	\$4,281	\$4,357	\$4,384
<i>As a % of revenue</i>	<b>17.6%</b>	18.5%	19%	18.7%	17.9%	21.2%	20.3%	20.2%
Operating income	<b>\$3,856</b>	\$3,729	\$3,678	\$2,850	\$3,087	\$1,790	\$2,304	\$2,408
<i>As a % of revenue</i>	<b>12.8%</b>	14.2%	13.8%	11.9%	12.6%	8.8%	10.7%	11.1%
Gain (loss) on foreign exchange	<b>\$95</b>	\$(338)	\$256	\$515	\$(29)	\$603	\$264	\$372
Net income	<b>\$2,763</b>	\$2,383	\$2,867	\$2,352	\$2,150	\$1,575	\$1,714	\$1,926
Earnings per share – diluted	<b>\$0.08</b>	\$0.07	\$0.09	\$0.07	\$0.07	\$0.05	\$0.06	\$0.06
EBITDA <sup>(2)</sup>	<b>\$4,418</b>	\$3,884	\$4,372	\$3,806	\$3,523	\$2,858	\$3,032	\$3,214
EBITDA per share – diluted	<b>\$0.12</b>	\$0.12	\$0.13	\$0.11	\$0.11	\$0.10	\$0.10	\$0.11
Adjusted EBITDA <sup>(2)</sup>	<b>\$5,074</b>	\$3,884	\$4,382	\$3,836	\$3,523	\$2,858	\$3,049	\$3,287
Adjusted EBITDA per share – diluted	<b>\$0.14</b>	\$0.12	\$0.13	\$0.11	\$0.11	\$0.10	\$0.10	\$0.11
Dividend declared per share	<b>\$0.05</b>	\$0.05	\$0.05	\$0.04	\$0.04	\$0.04	\$0.04	\$0.035
Weighted average number of common shares outstanding – diluted	<b>35,087</b>	33,684	33,562	33,746	32,265	30,194	29,875	29,807

<sup>(1)</sup> "Operating costs" include: administrative expenses, selling expenses, engineering expenses and research and development expenses.

<sup>(2)</sup> Reconciliation of EBITDA and adjusted EBITDA with net income provided in the table that follows.

Since 2013, the Corporation has achieved record-breaking revenue every quarter compared to the corresponding quarter previous year. This increase in revenue is primarily due to Savaria launching new products, to an increase in sales of certain existing products and to acquisitions.

The gross margin that was reached in 4<sup>th</sup> quarter of 2015 has remained stable in the first 6 months of 2016 while the level of revenue, which remained stable in the 1<sup>st</sup> quarter of 2016, increased by \$3.9 M in 2<sup>nd</sup> quarter. The increase of the gross margin compared to the average of 30.6% since 3<sup>rd</sup> quarter of 2014 is mainly due to the very high level of revenue of the last three quarters compared to the average of the previous periods of \$22.4 M.

Operating costs for 2<sup>nd</sup> quarter of 2016, at \$5.3 M or 17.6% of revenue, are down compared to the average of 18.5% in 1<sup>st</sup> quarter of 2016 and 19.1% average in 2015 and 20.2% in 2014, while they are up in terms of dollars

compared with a quarterly average of \$4.8 M in 1<sup>st</sup> quarter of 2016 and a quarterly average of \$4.4 M in 2015 and \$4.3 M in 2014. Quarterly operating costs are higher since the 4<sup>th</sup> quarter of 2015 mainly due to the impact of the acquisition of three Silver Cross franchisees during the 3<sup>rd</sup> quarter of 2015 and SHHC during 2<sup>nd</sup> quarter of 2016.

At \$4.2 M for 2016 compared to an average of \$3.6 M for 2015, quarterly EBITDA is up more than 35% compared to an average of \$3.1 M for fiscal 2014 whereas adjusted EBITDA, at \$4.5 M in average for 2016, is up 41% compared to the average of 2014.

### Reconciliation of EBITDA and adjusted EBITDA with Net Income

As mentioned in section 3, although EBITDA and adjusted EBITDA are not recognized according to IFRS, they are used by management, investors and analysts to assess the Corporation's financial and operating performance.

Reconciliation between net income and EBITDA and adjusted EBITDA is provided in the table below.

(in thousands of dollars – unaudited)	2016		2015				2014	
	Quarter 2	Quarter 1	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Quarter 4	Quarter 3
Net income	\$2,763	\$2,383	\$2,867	\$2,352	\$2,150	\$1,575	\$1,714	\$1,926
Plus:								
Interest on long-term debt	145	152	130	140	147	146	146	134
Interest and bank charges	50	44	31	68	44	43	70	69
Income tax expense	1,054	877	976	876	774	662	685	703
Depreciation of fixed assets	295	325	286	271	255	250	241	257
Amortization of intangible assets	172	168	152	170	210	215	223	177
Less:								
Interest Income	61	65	70	71	57	33	47	52
EBITDA	\$4,418	\$3,884	\$4,372	\$3,806	\$3,523	\$2,858	\$3,032	\$3,214
Business acquisition costs	656	-	10	30	-	-	17	73
Adjusted EBITDA	\$5,074	\$3,884	\$4,382	\$3,836	\$3,523	\$2,858	\$3,049	\$3,287

The following section provides a detailed analysis of operating results for 2<sup>nd</sup> quarter of 2016, in comparison with the same quarter of 2015 and results for the first six months of 2016. The detailed analysis of prior quarters is provided in the interim reports for fiscal 2016, 2015 and 2014, available on SEDAR's website at [www.sedar.com](http://www.sedar.com).

## 9. Operating Results

Certain data on results for 2<sup>nd</sup> quarter and for the first six months of 2016 and 2015 are presented in the following tables.

### Gross margin

(in thousands of dollars, except percentages – unaudited)	3 Months			6 Months		
	2016	2015	Change	2016	2015	Change
Revenue	<b>\$30,086</b>	\$24,422	23.2%	<b>\$56,302</b>	\$44,656	26.1%
Cost of sales	<b>\$20,291</b>	\$16,962	19.6%	<b>\$38,040</b>	\$31,125	22.2%
Gross margin	<b>\$9,795</b>	\$7,460	31.3%	<b>\$18,262</b>	\$13,531	35%
<i>As a % of revenue</i>	<b>32.6%</b>	30.5%	<i>n/a</i>	<b>32.4%</b>	30.3%	<i>n/a</i>

Revenue for the 2<sup>nd</sup> quarter of 2016 is up by \$5.7 M or 23.2%, from \$24.4 in 2015 to \$30.1 in 2016, a record for the Corporation. This increase includes a favourable variation in foreign exchange of \$528,000, coming mainly from the *Accessibility* segment. Taking this positive impact into account, revenue of *Accessibility* segment is up 17.5% or \$3.7 M, from \$21 M for the 2<sup>nd</sup> quarter of 2015 to \$24.7 M for the 2<sup>nd</sup> quarter of 2016, primarily due to an increase in the sale of stairlifts for straight and curved stairways which is up 68% in number of units. Revenue for the *Adapted Vehicles* segment is also up, from \$3.4 M in 2<sup>nd</sup> quarter 2015 to \$5.4 M in 2<sup>nd</sup> quarter 2016, an increase of 57.8% or \$2 M. This increase is mainly due to the acquisition of SHHC, whose revenue represents \$1.1 M in the 2<sup>nd</sup> quarter of 2016 and an increase in the volume of conversions by the Van-Action subsidiary (+\$1.1 M).

Revenue for the first six months of 2016 is up by \$11.6 M or 26.1% compared to the same period previous year. This increase includes a favourable variation in foreign exchange of \$1.3 M. Revenue of *Accessibility* segment is up 23.6% or \$9 M whereas revenue for the *Adapted Vehicles* segment is up 41.4% or \$2.6 M despite a temporary shutdown of operations following the relocation of the Montreal division this past January.

### Breakdown of Sales by Geographical Region

(as a percentage of sales, unaudited)	3 months			6 months		
	2016	2015	Change	2016	2015	Change
Canada	<b>39.5%</b>	35.6%	3.9	<b>37.9%</b>	36%	1.9
United States	<b>51.9%</b>	54.6%	(2.7)	<b>52.9%</b>	54.5%	(1.6)
Other regions	<b>8.6%</b>	9.8%	(1.2)	<b>9.2%</b>	9.5%	(0.3)

Gross margin is up by \$2.3 M for the 2<sup>nd</sup> quarter of 2016 and \$4.7 M for the first six months compared to the corresponding periods of 2015. As a percentage of revenue, gross margin is up from 30.5% in 2015 to 32.6% for the 2<sup>nd</sup> quarter and up from 30.3% in 2015 to 32.4% for the first six months despite relocation costs of some \$250,000 incurred by the Montreal division of the *Adapted Vehicles* segment during the 1<sup>st</sup> quarter of 2016.

The increase in our purchases from Asia allows us to maintain our direct costs at a competitive level. The proportion of purchases made by the subsidiary Savaria Concord for first six months of 2016 from the subsidiary Savaria Huizhou and other suppliers in Asia has increased to 58% of purchases of raw materials, compared to 54% for fiscal 2015. Note that 90% of purchases from Asia come from the subsidiary Savaria Huizhou (2015: 89%).

## Operating Income

(in thousands of dollars, except percentages - unaudited)	3 Months			6 Months		
	2016	2015	Change	2016	2015	Change
Operating costs	<b>\$5,285</b>	\$4,373	20.9%	<b>\$10,131</b>	\$8,654	17.1%
<i>As a % of revenue</i>	<b>17.6%</b>	17.9%	<i>n/a</i>	<b>18%</b>	19.4%	<i>n/a</i>
Other Income and costs	<b>654</b>	\$ -	100%	<b>546</b>	\$ -	100%
Operating income	<b>\$3,856</b>	\$3,087	24.9%	<b>\$7,585</b>	\$4,877	55.5%
<i>As a % of revenue</i>	<b>12.8%</b>	12.6%	<i>n/a</i>	<b>13.5%</b>	10.9%	<i>n/a</i>

The proportion of operating costs relative to revenue decreased in the 2<sup>nd</sup> quarter compared to the same period in 2015, from 17.9% to 17.6% in 2016 and in the first six months compared to the same period in 2015, from 19.4% to 18%. In terms of dollars, operating costs increased by \$912,000 for the 2<sup>nd</sup> quarter of 2016 and \$1.4 M for the first six months compared to the same periods in 2015, due mainly to the acquisition of three Silver Cross franchisees in 3<sup>rd</sup> quarter 2015 (+\$168,000 for 2<sup>nd</sup> quarter, +\$337,000 for the first six months) and of SHHC in the 2<sup>nd</sup> quarter of 2016 (+\$291,000 for 2<sup>nd</sup> quarter and the first six months), to an increase in the sales force and sales expenses (+\$93,000 for 2<sup>nd</sup> quarter, +\$192,000 for the first six months), and engineering and R&D activities (+\$220,000 for 2<sup>nd</sup> quarter, +425,000 for the first six months).

A net charge of \$654,000 was recorded in the 2<sup>nd</sup> quarter of 2016 mainly representing the SHHC's acquisition costs of \$656,000. An income of \$108,000 was recorded in the 1<sup>st</sup> quarter of 2016 coming from a grant received by the Savaria Huizhou subsidiary related to a request to be classified as a high-tech company (\$98,000).

The combined effect of the favourable change in gross margin, and the unfavourable changes in operating costs and other income and costs results in a positive effect on operating income with an increase of \$769,000 for the 2<sup>nd</sup> quarter and \$2.7 M in the first six months compared to the same periods in 2015.

## Net Income

(in thousands of dollars, except percentages - unaudited)	3 Months			6 Months		
	2016	2015	Change	2016	2015	Change
Net finance income (costs)	<b>\$(39)</b>	\$(163)	76.1%	<b>\$(508)</b>	\$284	(279)%
Income before income tax	<b>\$3,817</b>	\$2,924	30.5%	<b>\$7,077</b>	\$5,161	37.1%
Income tax expense	<b>\$1,054</b>	\$774	36.2%	<b>\$1,931</b>	\$1,436	34.5%
Net income	<b>\$2,763</b>	\$2,150	28.5%	<b>\$5,146</b>	\$3,725	38.1%
<i>As a % of revenue</i>	<b>9.2%</b>	8.8%	<i>n/a</i>	<b>9.1%</b>	8.3%	<i>n/a</i>
EBITDA	<b>\$4,418</b>	\$3,523	25.4%	<b>\$8,302</b>	\$6,381	30.1%
<i>As a % of revenue</i>	<b>14.7%</b>	14.4%	<i>n/a</i>	<b>14.7%</b>	14.3%	<i>n/a</i>
Adjusted EBITDA	<b>\$5,074</b>	\$3,523	44%	<b>\$8,958</b>	\$6,381	40.4%
<i>As a % of revenue</i>	<b>16.9%</b>	14.4%	<i>n/a</i>	<b>15.9%</b>	14.3%	<i>n/a</i>

The favourable variation of \$124,000 of net finance income (costs) for the 2<sup>nd</sup> quarter of 2016 compared to same period of 2015 is due to a favourable variation in net foreign exchange gains (losses), whereas the unfavourable variation of \$792,000 for the first six months is primarily due to an unfavourable variation in net foreign exchange gains (losses) of \$817,000 partially offset by a favourable variation in interest income of \$36,000. Gains and losses on foreign exchange are mostly attributable to the end-of-period translation of monetary items denominated in U.S. dollars.

The effective income tax rate of 27.3% for the first six months of 2016 is slightly lower than the effective income tax rate of 27.8% for 2015 mainly due to non-deductible items.

Net income and EBITDA increased for the 2<sup>nd</sup> quarter of 2016 and the first six months compared to corresponding periods of 2015, with an increase of \$613,000 and \$1.4 M of net income respectively and of \$895,000 and \$1.9 M of EBITDA respectively. Adjusted EBITDA, which adds to EBITDA the costs related to the acquisition of SHHC of \$656,000 is up by \$1.6 M in the 2<sup>nd</sup> quarter and \$2.6 M in the first six months of 2016 over the same periods in 2015.

## Hedging of Foreign Exchange Rates

In conformity with the hedging policy adopted by the Board of Directors, the Corporation uses foreign exchange contracts to reduce the risks related to currency fluctuations. It applies hedge accounting, which allows the recognition of gains, losses, revenues and expenses from derivative financial instruments in the same period as those related to the hedged item. Foreign exchange contracts are presented at their fair value in the statement of

financial position according to their maturity date. Unrealized gains and losses not recognized as net income are recorded in *Accumulated other comprehensive income*. At the term of the contracts, gains and losses are reclassified against revenue in net earnings.

As at June 30, 2016, the Corporation held foreign exchange contracts totaling \$54.5 M U.S. for a hedging period up to June 30, 2019, at a weighted average rate of 1.1874. At the end of the quarter, the unrealized loss on the foreign exchange contracts amounted to \$5.6 M before deferred taxes. This amount is reflected on the statement of financial position under *Derivative financial instruments* of Non-current assets and Current and Non-current liabilities and is included in the *Accumulated other comprehensive income* balance (see *Available Sources of Financing* in section 10 for details).

### Hedging of Interest Rates

The Corporation signed a financing agreement in April 2012 comprising of two long-term debts for a total of \$16.6 M. Since those debts bear interest at variable rates, the Corporation decided to enter into interest rate swap agreements to minimize its risk of variation of cash-flows related to changes in interest rates. Therefore, it has signed a first swap related to an original capital amount of \$7 M with a fixed interest rate of 3.48%, and a second swap related to an original capital amount of \$9.6 M with a fixed interest rate of 3.58%, both for a 5-year period. Those rates include a stamping fee of 1.5%.

Consistent with our currency hedges, the Corporation applies hedge accounting, which enables the recording of unrealized gains and losses related to the derivative financial instrument to *Accumulated other comprehensive income*, while fair value is recorded in the statement of financial position. As at June 30, 2016, the unrealized loss on the interest rate swaps amounts to \$90,000 before deferred taxes. This amount is reflected on the statement of financial position under *Derivative financial instruments* of Current and Non-current liabilities and is included in the *Accumulated other comprehensive income* balance.

## 10. Financial Position

### Changes between Statements of Financial Position

The following table shows the key changes in the statements of financial position between June 30, 2016 and December 31, 2015, along with the principal explanations of such changes:

(in thousands of dollars, except percentages)	<b>June 30, 2016 (unaudited)</b>	December 31, 2015	Change	Principal causes of the changes
<b>Current assets</b>				
Cash	<b>\$41,457</b>	\$29,707	\$11,750	Net proceeds of \$19,097 following the conclusion of a private placement and acquisition of SHHC (-\$8,675).

(in thousands of dollars, except percentages)	June 30, 2016 (unaudited)	December 31, 2015	Change	Principal causes of the changes
Trade and other receivables	<b>\$14,361</b>	\$12,878	\$1,483	Decrease in the exchange rate used for the conversion of U.S. dollar denominated receivables (-\$614) and increases in trade receivables (+\$1,700) and in sales taxes receivable (+\$456).
Number of days in receivables <sup>(1)</sup>	<b>44</b>	44	-%	
Inventories	<b>\$23,787</b>	\$18,111	\$5,676	Acquisition of SHHC (+\$5,749).
Inventory turnover rate <sup>(1)</sup>	<b>3.75</b>	3.59	4.5%	Revenue increased at a faster pace than inventories.
<b>Non-current assets</b>				
Derivative financial instruments	<b>\$334</b>	\$ -	\$334	Unrealized gains on foreign exchange contracts maturing after the next twelve months. As at December 31, 2015, all foreign exchange contracts had unrealised losses.
Fixed assets	<b>\$19,590</b>	\$18,389	\$1,201	Additions (+\$1,872), depreciation (-\$620) and other minor changes.
Goodwill	<b>\$9,485</b>	\$7,485	\$2,000	Acquisition of SHHC.
Deferred tax assets	<b>\$3,808</b>	\$5,422	\$(1,614)	Deferred taxes on the change in <i>Accumulated other comprehensive income (loss)</i> (-\$1,763).

<sup>(1)</sup> Based on the average of the last four quarters

(in thousands of dollars, except percentages)	<b>June 30, 2016 (unaudited)</b>	December 31, 2015	Change	Principal causes of the changes
<b>Current liabilities</b>				
Trade and other payables	<b>\$12,510</b>	\$11,140	\$1,370	Decrease in the exchange rate used for the conversion of U.S. dollar denominated payables (-\$441), increase in trade (+\$1,600) and in salaries and benefits payable (+\$260).
Income taxes payable	<b>\$ -</b>	\$1,440	\$(1,440)	Payment of balance due for 2015.
Derivative financial instruments	<b>\$3,859</b>	\$5,812	\$(1,953)	Favourable change in unrealized losses on foreign exchange contracts maturing in the next twelve months (-\$1,917).
Current portion of long-term debt	<b>\$3,311</b>	\$2,980	\$331	See explanations under <i>Long-term debt</i> .
<b>Non-current liabilities</b>				
Long-term debt	<b>\$14,777</b>	\$14,272	\$505	Balance cashed on construction loan related to the Laval building acquired in August 2015 (+\$2,000), normal repayment of the debt (-\$931), repayment of a note payable related to a 2014 acquisition (-\$275) and other minor changes (includes the change in current portion of long-term debt).
Derivative financial instruments	<b>\$2,153</b>	\$6,723	\$(4,570)	Favourable change in unrealized losses on foreign exchange contracts maturing after the next twelve months (-\$4,533).

(in thousands of dollars, except percentages)	<b>June 30, 2016 (unaudited)</b>	December 31, 2015	Change	Principal causes of the changes
<b>Equity</b>	<b>\$75,641</b>	\$49,213	\$26,428	Net income (+\$5,146), share issue in relation to a private placement, net of transaction fees and related taxes (refer to section 10 <i>Available Sources of Financing</i> for details) (+\$19,415), exercise of warrants (+\$165) and share purchase options (+\$132), declaration of dividends (-\$3,267) and change in <i>Accumulated other comprehensive loss</i> (+\$4,678).
<b>Working capital</b> <sup>(1)</sup>	<b>\$57,654</b>	\$37,028	\$20,626	Increases in cash (+\$11,750), inventories (+\$5,676), trade and other receivables (+\$1,483) and trade and other payables (-\$1,370), decreases in the current portion of derivative financial instruments (+\$1,953) and income taxes payable (+\$1,440).
Current ratio <sup>(1)</sup>	<b>3.52</b>	2.51	40.2%	See above.

<sup>(1)</sup> See definition in section 3, *Compliance with International Financial Reporting Standards*

As at June 30, 2016, Savaria benefited from a sound financial position, with total assets of \$116.4 M, compared with \$95.7 M as at December 31, 2015, and total liabilities of \$40.8 M, compared with \$46.5 M as at December 31, 2015.

### Available Sources of Financing

(in thousands of dollars - unaudited)	June 30, 2016	December 31, 2015
Credit facilities:		
Authorized	<b>\$10,000</b>	\$7,500
Loans	-	(1,125)
Unused credit	<b>10,000</b>	6,375
Gross cash	<b>41,457</b>	30,832
Total	<b>\$51,457</b>	\$37,207

As shown above, the Corporation had total available funds of \$51.5 M as at June 30, 2016. This provides it with the flexibility to meet its potential obligations in the near term and to benefit from investment opportunities.

On August 31, 2015, the Corporation acquired a building at the cost of \$4.2 M. On the same date, the Corporation received financing in the form of a construction loan to the amount of \$6.2 M, of which \$2 M was used to perform improvements to the building. Following the receipt of the balance of \$2 M during the second quarter of 2016, the construction loan was converted into long-term debt. The terms of the financing agreement provide for a 180-month amortization period with monthly installments of \$43,000 in principal for the first 60 months, and of \$30,000 for the remaining 120 months.

On June 16, 2016, the Corporation completed a bought deal private placement of 2,600,000 common shares at a price of \$7.80 per share, for gross proceeds to Savaria of \$20.3 M and proceeds net of transaction fees of \$19.1 M. The common shares issued are subject to a statutory hold period which expires on October 17, 2016.

The Corporation minimizes its exposure to risks of variation of cash-flows related to fluctuations in interest rates by keeping most of its debt at fixed rates using swap agreements (see *Coverage of interest rates* in section 9). At the renewal of the credit conditions in June 2016, the maximum value of this substitution line was increased from \$610,000 to \$800,000.

Furthermore, the Corporation has a substitute line enabling it to be exposed to a risk of potential losses on foreign exchange contracts over a hedging period of a maximum of 36 months. At the renewal of the credit conditions of the Corporation in June 2016, the maximum value of this substitution line was increased from \$8.6 M to \$11.1 M and the enforcement of security rights in the case where the unrealized losses were above \$7.1 M was withdrawn from the agreement.

Since December 31, 2014, the Corporation's total net debt to invested capital ratio is *nil*, as its cash exceeds its long-term debt.

## Other Data and Ratios

(in thousands of dollars, except per-share amounts - unaudited)	June 30, 2016	December 31, 2015	Change
Book value per share <sup>(1)</sup>	<b>\$2.14</b>	\$1.51	41.7%
Cash per share <sup>(1)</sup>	<b>\$1.17</b>	\$0.91	28.6%
Market capitalization	<b>\$292,686</b>	\$179,514	63%

<sup>(1)</sup> See definition in section 3, *Compliance with International Financial Reporting Standards*

Book value per share as well as cash per share are up as at June 30, 2016 compared to December 31, 2015, due to the impact on equity and cash of the private placement completed in the second quarter. Relative to the book value per share, adding to that is the favourable variation in *Accumulated other comprehensive loss* primarily related to the favourable variation in fair value of foreign exchange contracts. Market capitalization is up due to an increase in the value of the common shares of the Corporation, which went from \$5.51 as at December 31, 2015 to \$8.29 as at June 30, 2016 and to the issuance of common shares related to the private placement.

## 11. Cash Flows

The following table presents certain cash flow data for 2<sup>nd</sup> quarter and for first six months 2016 and 2015.

(in thousands of dollars – unaudited)	3 Months			6 Months		
	2016	2015	Change	2016	2015	Change
Net cash from operating activities	<b>\$6,551</b>	\$1,138	476%	<b>\$6,219</b>	\$3,936	58%
Net cash used in investing activities	<b>\$(10,052)</b>	\$(776)	(1195)%	<b>\$(10,720)</b>	\$(1,256)	(754)%
Net cash from financing activities	<b>\$18,991</b>	\$11,591	63.8%	<b>\$16,572</b>	\$9,668	71.4%

The Corporation's cash flows from operating activities are up \$5.4 M for the 2<sup>nd</sup> quarter and \$2.3 M for the first six months compared to the corresponding periods of previous year. This is mainly due to a favourable variation in non-cash items (+\$4.5 M for the quarter, +\$1 M for the first six months), and net income before tax (+\$893,000 for the quarter, +\$1.9 M for the first six months); for the first six months, adding to those are the variation in unrealized foreign exchange gains and losses (+\$562,000) offset by higher income tax payments (-\$1.3 M).

Cash flows used in investing activities is up by \$9.3 M in 2<sup>nd</sup> quarter and \$9.5 M in the first six months of 2016 compared to the same periods previous year. This is mainly due to the disbursement related to the acquisition of SHHC (-\$8.7 M) and the variation in deposits and additions to fixed assets (-\$529,000 for the quarter, -\$857,000 for the first six months).

In regard to financing activities, cash flows from financing activities are up \$7.4 M for 2<sup>nd</sup> quarter 2016 and \$6.9 M for the first six months compared to the same periods previous year. This is mainly due to a favourable variation in the proceeds related to a private placement (+\$5.6 M) and in new debt proceeds (+\$2 M), partially offset by higher dividend payments (-\$333,000 for the quarter, -\$783,000 for the first six months).

## **12. Significant Accounting Policies and Estimates**

### **(A) Accounting Estimates**

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment are the goodwill, the measurement of the identifiable assets acquired during business acquisitions, the measurement of the fair value of derivative financial instruments and the warranty provisions. Important judgements made by management when applying accounting policies that have the most significant impact on amounts recognized in the consolidated financial statements are the determination of cash-generating units, the identification of operating segments and the determination of foreign operations' functional currency.

These estimates are based on management's knowledge of current events and on the measures the Corporation could take in the future. Actual results may differ from these estimates.

### **(B) New standards and interpretations adopted during first six months**

The following new standards and amendments to standards and interpretations have been applied in preparing the interim condensed consolidated financial statements as at June 30, 2016:

- *Annual Improvements to IFRS: (2012-2014) cycle*
- *Clarification of Acceptable Methods of Depreciation and Amortization (Amendments to IAS 16 and IAS 38)*
- *Disclosure initiative: amendments to IAS 1*

None of these amendments had a significant impact on the financial statements.

### **(C) New standards and interpretations not yet adopted**

The following new standards and amendments to standards and interpretations, not yet adopted, have not been applied in preparing the condensed consolidated interim financial statements as at June 30, 2016.

- IFRS 9 (2014) - *Financial Instruments*
- IFRS 15 - *Revenue from Contracts with Customers*
- IFRS 16 – *Leases*
- Amendments to IFRS 2 - *Classification and Measurement of Share-based Payment Transactions*
- Amendments to IAS 7 - *Disclosure Initiative*

- Amendments to IAS 12 - *Recognition of Deferred Tax Assets for Unrealized Losses*

Further information on the adopted and future accounting modifications are available in Note 3 of the consolidated financial statements as at December 31, 2015 and the condensed consolidated interim financial statements as at June 30, 2016.

## **13. Internal Control over Financial Reporting**

### **Disclosure Controls and Procedures**

The Chief Executive Officer and the Chief Financial Officer of the Corporation are in charge of establishing and maintaining disclosure controls and procedures, as defined by *Multilateral Instrument 52-109* of the Canadian Securities Administrators.

As stated in the 2015 annual Management's Report, an evaluation has been conducted to measure the effectiveness of controls and procedures as of December 31, 2015 used for the preparation of reporting documents.

### **Internal Control over Financial Reporting**

The Chief Executive Officer and the Chief Financial Officer of the Corporation are in charge of establishing and maintaining an adequate internal control system in regard to financial reporting.

As stated in the 2015 annual Management's Report, management has evaluated the effectiveness of internal control over financial reporting as of December 31, 2015.

### **Limitation on scope of design**

The Corporation has limited the scope of its disclosure controls and procedures and internal controls over financial reporting to exclude controls, policies and procedures of Silver Cross Automotive acquired not more than 365 days before the last day of the period covered by the interim filing. The Corporation elected to exclude it from the scope of certification as allowed by NI 52-109. The Corporation intends to evaluate the situation within one year of acquisition.

### **Changes to Internal Control over Financial Reporting**

No changes in the Corporation's internal control over financial reporting occurred during the first six months of 2016 that materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

## **14. Off-Balance Sheet Arrangements**

Savaria did not enter into any off-balance sheet arrangements during the first six months of 2016.

## **15. Related Party Transactions**

The Corporation recorded an amount of \$26,000 (\$46,000 in 2015) during the first six months of 2016 for accounting and tax services rendered by an entity whose officer is a director and the chief financial officer of the Corporation.

The Corporation signed a lease with an entity owned by a director and the President and Chief Executive Officer of the Corporation. Under the terms of the lease, an amount of \$13,000 (same in 2015) was paid to that company during the first six months of 2016. The lease expires in October 2016, and the total remaining commitment is \$8,000 (\$34,000 in 2015).

The terms and conditions attached to the above transactions reflect market conditions.

## 16. Risks and Uncertainties

Savaria is engaged in an industry exposed to various risks and uncertainties. The Corporation's operating results and financial position could be adversely affected by each of the risks and uncertainties described in its 2015 annual management's report, which refer to the following:

- Exchange rates
- Interest rates
- Prices
- Credit
- Liquidity
- Economic conditions
- Warranties
- Tax credits
- Deferred tax assets
- Competition
- Dependence on the U.S. market
- Environment
- Lawsuits

## 17. Subsequent Event

On July 4, 2016, the Corporation entered into an interest rate swap contract for a 5-year period on a loan of \$6.2 M with a fixed interest rate of 2.68%, including a stamping fee of 1.5%. This derivative instrument has been designated as hedging for accounting purposes.

## 18. Outlook

Savaria plans to continue its growth of the last years and remains optimistic over its continuing potential for further growth driven by the aging population and people's desire to age at home.

As demonstrated in the first six months of 2016, sales of accessibility products, especially those of stairlifts, are forecast to double in 2016, as it was the case in 2015. The development of a complementary product, a patient lift, at our research and development center in Magog (Quebec) is progressing according to plans; this new product is expected to be launched in September 2016 and will be an exciting addition to our product line, which is one of the most comprehensive on the market.

Regarding the *Adapted Vehicles* segment, the acquisition of the automotive division of SHHC's assets enable us to reach new markets such as Vancouver, Calgary and Edmonton. This transaction is expected to generate annual revenue of some \$15 million and EBITDA of some \$1.5 million in 2017, excluding synergies from this acquisition.

Savaria continues to stay abreast of strategic acquisition opportunities that would allow it to further its growth and strengthen its key player position in the accessibility market, as it continues to develop new products.

The Corporation adjusts its forecast for the twelve-month period ending December 31, 2016, by increasing revenue to approximately \$118 million and EBITDA to a range of \$17.5-\$18.5 million, excluding any new acquisitions.

August 10, 2016