



SAVARIA CORPORATION

Management's Report

For the Three-Month and Six-Month Periods Ended June 30, 2018

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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-month and six-month periods ended June 30, 2018, in comparison with that for the corresponding periods of fiscal 2017. It also provides a comparison of its statements of financial position as at June 30, 2018 and December 31, 2017. 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 2018 and accompanying notes, and with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2017 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 Corporation's auditor.

This management's report was prepared as at August 8, 2018. Additional information, including the Annual Information Form, are available on SEDAR's website at www.sedar.com.

2. Forward-Looking Statements

This MD&A includes certain statements that are "forward-looking statements" within the meaning of the securities laws of Canada. Any statement in this MD&A that is not a statement of historical fact may be deemed to be a forward-looking statement. When used in this MD&A, the words "believe", "could", "should", "intend", "expect", "estimate", "assume" and other similar expressions are generally intended to identify forward-looking statements. It is important to know that the forward-looking statements in this MD&A describe our expectations as at August 8, 2018, which are not guarantees of the future performance of Savaria or its industry, and involve known and unknown risks and uncertainties that may cause Savaria's or the industry's outlook, actual results or performance to be materially different from any future results or performance expressed or implied by such statements. Our actual results could be materially different from our expectations if known or unknown risks affect our business, or if our estimates or assumptions turn out to be inaccurate. A change affecting an assumption can also have an impact on other interrelated assumptions, which could increase or diminish the effect of the change. As a result, we cannot guarantee that any forward-looking statement will materialize and, accordingly, the reader is cautioned not to place undue reliance on these forward-looking statements. Forward-looking statements do not take into account the effect that transactions or special items announced or occurring after the statements are made may have on our business. For example, they do not include the effect of sales of assets, monetization, mergers, acquisitions, other business combinations or transactions, asset write-downs or other charges announced or occurring after forward-looking statements are made.

Unless otherwise required by applicable securities laws, we disclaim any intention or obligation to update or revise the forward-looking statements, whether as a result of new information, future events or otherwise.

The foregoing risks and uncertainties include the risks set forth under “Risks and Uncertainties” in our 2017 Annual Management Discussion and Analysis as well as other risks detailed from time to time in reports filed by Savaria with securities regulators in Canada.

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 realized and unrealized business acquisition costs, the value adjustment on acquired inventories, the compensation expense on share options granted, the proceeds from an insurance claim and the gain on a financial instrument, 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 stock-based compensation, acquisition costs, value adjustments on acquired inventories, proceeds from insurance claims and gains on financial instruments. 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 physically challenged to increase their comfort, their mobility and their independence. The diversity of its product line, one of the most comprehensive on the market, includes stairlifts, wheelchair lifts, ceiling lifts, residential and commercial elevators and the conversion and adaptation of vehicles. The Corporation entered the Medical Products market through the acquisition of Span-America Medical Systems, Inc. (“Span”) in June 2017 (see the *Span Segment* below for details).

The Corporation, whose headquarters along with a vehicle conversion plant are located in Laval, Quebec, in a 57,000-square-foot building, also has a 125,000-square-foot plant in Brampton, Ontario, a 75,000-square-foot plant in Huizhou, China, a 27,000-square-foot plant in Toronto, Ontario as well as 11 sales offices and retail stores throughout Canada and sales offices in Baltimore, Maryland and Denver, Colorado in the United States,

and in Brisbane, Australia. Following the acquisition of Span, the Corporation now also has a 188,000-square-foot plant in Greenville, South Carolina and a 50,000-square-foot plant in Beamsville, Ontario.

Operating Segments of the Corporation

The Corporation manages its operations under three operating segments, *Accessibility*, *Adapted Vehicles* and *Span*. These segments are structured according to the market segments they address.

- **Accessibility Segment (50% of Revenue in the first six months of 2018; 60% of Revenue in 2017)**

Through its *Accessibility* segment, Savaria 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 400 retailers, which are primarily located in North America. Through the acquisition of Premier Lifts, Inc. ("Premier Lifts") and Master Lifts Australia Pty Ltd ("Master Lifts") in 2017 and of H.E.S. Elevator Services, Inc. ("H.E.S.") in 2018, Savaria has expanded its direct sales territory of residential elevators to the Baltimore-Washington and Denver areas and its sales territory of accessibility products to Australia. The Huizhou, China, plant is the main supplier of parts and components for the Brampton plant; also, it assembles product components and finished products mainly for the benefit of the Corporation and for the sale of products on the Asian, European and Australian markets. Operation of this Chinese subsidiary allows Savaria to obtain competitive pricing on its purchases. Through its Silver Cross division, the Corporation operates a network of franchises and corporate stores in which new and recycled accessibility equipment is sold.

- **Adapted Vehicles Segment (12% of Revenue in the first six months of 2018; 15% of Revenue in 2017)**

Through its *Adapted Vehicles* segment, Savaria converts and adapts minivans to facilitate the transport of mobility challenged people via its Van-Action (2005) Inc. (Laval, Quebec) and Freedom Motors Inc. (Toronto, Ontario) subsidiaries. Its Silver Cross Automotive Inc. subsidiary 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.

- **Span Segment (38% of Revenue in the first six months of 2018; 25% of Revenue between the acquisition on June 16, 2017 and December 31, 2017)**

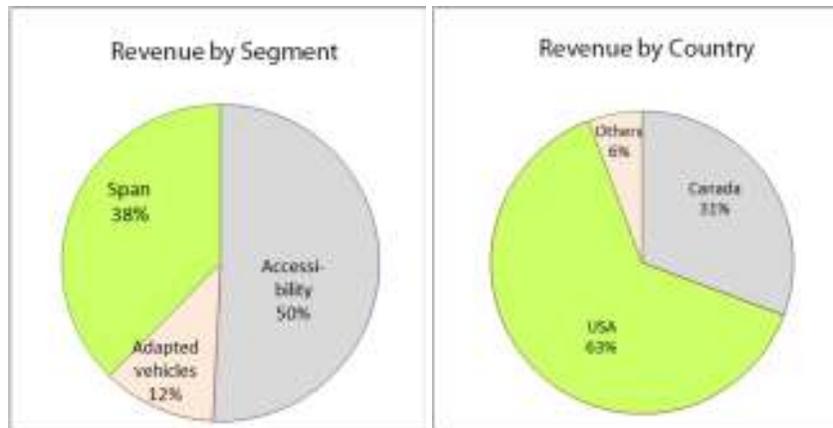
The Corporation entered the medical products market through the acquisition of Span in June 2017. In Greenville, South Carolina, the Corporation designs, manufactures and markets a comprehensive selection of therapeutic support surfaces and other pressure management products for the medical market. Pressure management products made up 57% of total Span revenue in the first six months of 2018. In Beamsville, Ontario, Span manufactures and markets medical beds. Medical beds and related products made up 25% of total Span revenue for the first six months of 2018. Medical products are sold primarily in North America to customers in the major segments of the health care market, including long-term care facilities, acute care hospitals and home health care providers.

To those two main product lines, secondary products are added. As such, Span manufactures and markets foam mattress overlays and pillows sold to various retail customers in the U.S. market. Consumer sales made up 12% of total Span revenue in the first six months of 2018.

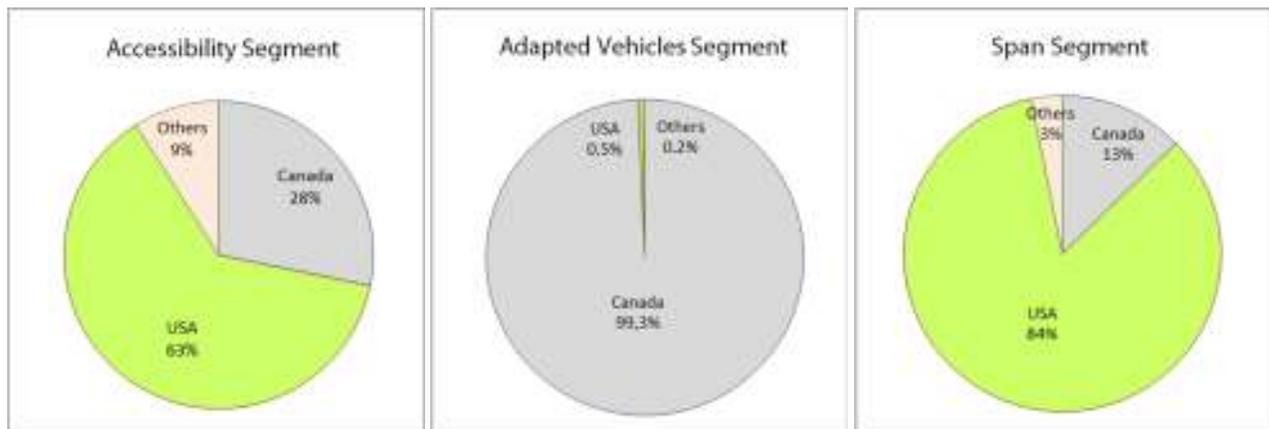
Lastly, Span manufactures and markets certain products for the industrial market, mainly foam products, which are sold to a variety of sectors, including the automotive, packaging and water sports equipment industries. Industrial products made up 6% of total Span revenue in the first six months of 2018.

Revenue Breakdown per Segment per Country

During the first six months of 2018, Savaria's total revenue was recorded in the United States (63%), Canada (31%) and, to a lesser extent, outside North America (6%). Revenue breakdown per segment and country is as follows:



Revenue breakdown per country for the three segments is as follows:



Revenue for first six months of 2018 amounts to \$61.4 million ("M") for the *Accessibility* segment, \$46.2 M for the *Span* segment and \$14.3 M for the *Adapted Vehicles* segment and, for total revenue of \$120.8 M, taking into account consolidation eliminations of \$1.1 M. In this report, unless specifically mentioned, the analysis covers the three segments.

The Corporation employs some 800 employees and its shares are listed on the Toronto Stock Exchange under the symbol "SIS".

Operations in Foreign Exchange

The Corporation is subject to foreign currency fluctuations from the conversion of revenue, expenses, assets and liabilities of its foreign operations and from commercial transactions denominated mainly in U.S. dollars. Transactions denominated in foreign currencies are initially recorded at the functional currency rate of exchange in effect at the date of the transactions, excluding the impact of forward foreign exchange contracts, while the statement of income of foreign operations is converted at the average exchange rate for the period.

The foreign exchange rates used to convert assets and liabilities into Canadian dollars were as follows, as at:

	June 30, 2018 (unaudited)	December 31, 2017
USD (Canadian equivalent of U.S. \$1)	1.3133	1.2571

The foreign exchange rates used to convert revenue and expenses into Canadian dollars were as follows:

(unaudited)	Quarters ended June 30		Six Months ended June 30	
	2018	2017	2018	2017
USD (Canadian equivalent of U.S. \$1)	1.2911	1.3449	1.2781	1.3343

The Corporation uses foreign exchange contracts to reduce the risks related to currency fluctuations, so the variations in the rates presented above may not be representative of the actual impact of exchange rates on financial results (see *Hedging of Foreign Exchange Rates* in section 9 for details).

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 Span pressure management products and medical beds are most commonly used in long-term care facilities and, to a lesser extent, in home care settings. These products are well positioned to benefit from the expected growth in the aging population in North America. The number of people requiring accessibility products, pressure management products and medical beds will therefore steadily grow as the population continues to age.

According to a 2016 Canadian census, 5.9 million people – representing 16.9% of Canada's population – were 65 years and older compared with 5 million or 14.4% at the last census in 2011. These numbers are expected to continue rising, with a projected 10.4 million people – or 24% of Canada's population – 65 years and older by 2031 and 12 million – or 26% by 2061. Similar trends, although less pronounced, are noticed in the United States. The population aged 65 and over has increased from 36.2 million in 2004 to 46.2 million in 2014 (a 28%

increase) and is projected to increase to 82.3 million – or 21.7% of the population by 2040 and to 98 million by 2060.

Consequently, the number of people requiring accessibility equipment, pressure management products and medical beds will grow, for several reasons. Firstly, the older population is growing and people's life expectancy is increasing. According to an *Organisation for Economic Co-operation and Development* ("OECD") study titled *Health at a Glance 2013*, some 24 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 2016 Canadian census as above and the 2010 U.S. census, 93% 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 and increasing the need for medical beds and pressure management products in home care settings.

In addition, 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. In addition, 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 in the global market for personal mobility products. Distribute the most extensive line of products designed to increase personal mobility and comfort, 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 revenue and optimize purchasing power.

Our Mission

To design, engineer, manufacture and market the most comprehensive high-quality reliable and customized line of products that improves personal comfort, mobility and independence. To always provide a business culture and environment based on customer-driven principles, teamwork and mutual respect.

Our Strategy

To strengthen its predominant position in the personal mobility products market, Savaria executes several strategies.

- Savaria regularly develops and markets new products, providing the most extensive product selection in the industry to its 400 active distributors and its Canadian, American and Australian direct sales centers.

Achievements:

- The design of the new M2lift, a convenient and affordable vertical platform lift geared toward the residential market.
- The ongoing design of a new line of safe patient handling products, including a fixed and portable ceiling lift, customizable slings, a complete track system and related accessories which is in development at our research and development center in Magog, Quebec.

- 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 (see section 15 *Subsequent events*).

Achievements:

- Acquisition of the assets of H.E.S. in April 2018. This acquisition complements the acquisition of Visilift LLC ("Visilift") in Colorado and helps strengthen the Corporation's presence and our direct sales network in this market.
- Purchase of the assets of Master Lifts in December 2017. This acquisition provides Savaria with a national sales platform to gain access to the Australian market by leveraging Master Lifts's national sales network.
- Signature in August 2017 of an agreement to purchase the assets of Visilift (see section 15 *Subsequent events*). This acquisition will allow Savaria to add round and octagonal panoramic glass or acrylic elevators, the *Vuelift* elevator, to its line of residential elevators.
- Purchase of Span in June 2017. This transaction contributes to Savaria reaching its long-term strategic growth objectives by penetrating a strategic market in a key territory for Savaria and had the following key benefits:

- Further diversified Savaria's accessibility portfolio with highly complementary products, providing customers with a complete comfort and mobility offering.
- Significantly strengthened Savaria's ability to penetrate government and institutional accounts given Span's vast U.S. sales infrastructure and deep client relationships.
- Opened the door to market its new ceiling lifts product line, through Span's established distribution channels.
- Enhanced Savaria's production footprint with extensive U.S.-based manufacturing capabilities and additional production capacity in Ontario.
- The 188,000-square-foot facility in Greenville also provides Savaria with the flexibility to manufacture locally certain accessibility products for sale into the U.S. market.

- 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:

- During the second quarter of 2018, Savaria shifted the production of its ceiling lift products for domestic sale into the U.S. market to Span's facility in Greenville, South Carolina, which will enable the Corporation to reach the U.S. market more efficiently.
- For the same reason, Savaria is in the process to assemble and distribute its K2 straight stair lift for domestic sales into the U.S. market in its facility in Greenville, South Carolina.
- Acquisition in July 2017 of a 27,000-square-foot building in Toronto, Ontario, to consolidate the *Adapted Vehicles* activities of that region under one roof and free up space in the Brampton, Ontario plant for the *Accessibility* activities which are growing.

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 2018 Highlights

Second-quarter results reached unprecedented levels for a 2nd quarter in terms of Revenue, Operating Income and Adjusted EBITDA.

Revenue up 61.2%: For the 2nd quarter of 2018, revenue is up \$24.4 M, at \$64.2 M, compared to \$39.8 M same quarter previous year.

Operating income up 94.1%: Operating income is up \$4.2 M, at \$8.7 M for the 2nd quarter of 2018, compared to \$4.5 M same quarter previous year.

Net earnings up 131%: Net earnings are up \$3.6 M, at \$6.4 M, for the 2nd quarter of 2018, compared to \$2.8 M same quarter previous year.

Adjusted EBITDA up 49.8%: The Corporation's adjusted EBITDA amounted to \$10.1 M for the 2nd quarter of 2018 compared to \$6.7 M same quarter previous year, an increase of \$3.4 M. Reconciliation between net income and adjusted EBITDA is provided in section 8, *Summary of Quarterly Results*.

Bought Deal Placement

During the 2nd quarter, the Corporation completed a bought deal placement resulting in the issuance of 3,450,000 common shares and net proceeds of \$53.8 M (see *Available Sources of Financing* in section 10).

Acquisition of H.E.S. Lift Services Inc.

On April 12, 2018, the Corporation acquired the assets of H.E.S. through its subsidiary Savaria USA Inc. H.E.S. is an elevator distributor based in Denver, Colorado. This acquisition complements the acquisition of the assets of luxury elevator manufacturer Visilift in Colorado and helps strengthen the Corporation's presence and its direct sales network in this market.

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)	2018		2017 ⁽⁷⁾				2016 ⁽⁷⁾	
	Quarter 2 ⁽³⁾	Quarter 1	Quarter 4 ⁽⁴⁾	Quarter 3	Quarter 2 ⁽⁵⁾	Quarter 1 ⁽⁶⁾	Quarter 4	Quarter 3
Revenue	\$64,235	\$56,592	\$55,249	\$56,988	\$39,841	\$31,663	\$30,986	\$32,440
<i>Gross margin as a % of revenue</i>	33.8%	33.1%	36.3%	34.9%	32.9%	34.3%	35.9%	34.4%
Operating expenses ⁽¹⁾	\$13,869	\$12,888	\$13,318	\$12,778	\$7,399	\$6,177	\$6,094	\$6,254
<i>% of revenue</i>	21.6%	22.8%	24.1%	22.4%	18.6%	19.5%	19.7%	19.3%
Operating income	\$8,680	\$5,496	\$6,589	\$6,932	\$4,472	\$4,643	\$4,999	\$4,865
<i>% of revenue</i>	13.5%	9.7%	11.9%	12.2%	11.2%	14.7%	16.1%	15%
Gain (loss) on foreign exchange	\$216	\$103	\$46	\$(334)	\$(129)	\$(94)	\$311	\$197
Net income	\$6,376	\$3,772	\$8,335	\$4,812	\$2,764	\$3,337	\$3,740	\$3,415
Earnings per share – diluted	\$0.14	\$0.09	\$0.20	\$0.11	\$0.07	\$0.09	\$0.10	\$0.09
EBITDA ⁽²⁾	\$11,162	\$7,352	\$9,073	\$9,017	\$4,935	\$5,104	\$5,835	\$5,577
Adjusted EBITDA ⁽²⁾	\$10,106	\$7,924	\$9,537	\$9,604	\$6,745	\$5,229	\$5,986	\$5,721
Adjusted EBITDA per share – diluted	\$0.23	\$0.19	\$0.24	\$0.23	\$0.17	\$0.14	\$0.16	\$0.15
Dividend declared per share	\$0.09	\$0.09	\$0.09	\$0.10	\$0.07	\$0.06	\$0.07	\$0.05

⁽¹⁾ Operating expenses include administrative, selling, engineering and research and development expenses.

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

⁽³⁾ The results include the acquisition of H.E.S., effective on April 12, 2018.

⁽⁴⁾ The results include the acquisition of Master Lifts, effective on December 14, 2017.

⁽⁵⁾ The results include the acquisition of Span, effective on June 16, 2017.

⁽⁶⁾ The results include the acquisition of Premier Lifts, effective on February 10, 2017.

⁽⁷⁾ Revenue and Gross margin as a % of revenue for 2017 have been restated in order to reflect the change in presentation related to freight revenue in accordance with IFRS 15. However, 2016 numbers have not been restated. See subsection 12B) *New accounting standards and interpretations adopted during first six months*.

The acquisitions in recent years, coupled with organic growth, have generated record revenue from quarter to quarter. The significant increase in revenue since the 3rd quarter of 2017 is mainly due to the acquisition of Span in June 2017, whereas the activities acquired from Premier Lifts in February 2017, from Master Lifts in December 2017 and from H.E.S. in April 2018 also contributed to the increase, although in a lesser extent. The steady growth in revenue is also due to Savaria launching new products and to an increase in sales of certain existing products.

Gross margin, which was at 34,8% in 2017, is at 33.5% for the first six months of 2018. Span's acquisition in June 2017 has contributed in general to increase the percentage of gross margin. However, in the first six months of 2018, the margin in this segment decreased from 34.5% for the 4th quarter of 2017 to 29.8%, bringing down the consolidated margin. For more details, refer to *Gross Margin* in section 9 *Operating Results*.

Operating expenses are up since the 2nd quarter of 2017 mainly because of the impact of the previously mentioned acquisitions and the amortization of the intangible assets related to those acquisitions. In percentage of revenue, they were at 19.5% in 2016 and are holding steady at 22% in 2017 and 2018.

Adjusted EBITDA of 2017 is at 16.7% of revenue, whereas it is at 14.9% of revenue in the first six months of 2018. This decrease is due to the arrival of the new Span segment.

Reconciliation of EBITDA and Adjusted EBITDA with Net Income

As mentioned in section 3, although EBITDA and adjusted EBITDA are not recognized measures 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 – unaudited)	2018		2017				2016	
	Quarter 2	Quarter 1	Quarter 4	Quarter 3	Quarter 2	Quarter 1	Quarter 4	Quarter 3
Net income	\$6,376	\$3,772	\$8,335	\$4,812	\$2,764	\$3,337	\$3,740	\$3,415
Plus:								
Interest costs	813	406	503	399	152	182	187	247
Income tax expense (recovery)	2,216	1,335	(2,286)	1,386	1,510	1,147	1,510	1,512
Depreciation of fixed assets	709	650	613	774	444	368	353	336
Amortization of intangible assets	1,203	1,192	1,911	1,662	211	187	172	179
Less:								
Interest income	155	3	3	16	146	117	127	112
EBITDA	11,162	\$7,352	\$9,073	\$9,017	\$4,935	\$5,104	\$5,835	\$5,577
Stock-based compensation	295	215	315	277	212	86	104	94
Business acquisition costs, realized and unrealized	763	357	149	199	1,263	39	47	50
Value adjustment on acquired inventories	-	-	-	111	335	-	-	-
Less:								
Proceeds from insurance claim	1,611	-	-	-	-	-	-	-
Gain on financial instrument	503	-	-	-	-	-	-	-
Adjusted EBITDA	\$10,106	\$7,924	\$9,537	\$9,604	\$6,745	\$5,229	\$5,986	\$5,721

9. Operating Results

The following sections provide a detailed analysis of operating results for the 2nd quarter and first six months of 2018 compared with the same periods of 2017. The detailed analysis of prior quarters is provided in the interim reports for fiscal 2018, 2017 and 2016, available on SEDAR's website at www.sedar.com.

Segment Information

Certain financial data on the Corporation's three operating segments is presented in the following tables. For more information on the segments, refer to *Operating Segments of the Corporation* in section 4.

(in thousands of dollars, except for percentages - unaudited)	3 Months			6 Months		
	2018	2017	Change	2018	2017	Change
Revenue						
Accessibility	\$33,536	\$29,495	13.7%	\$61,388	\$54,033	13.6%
Adapted vehicles	7,276	7,038	3.4%	14,289	14,255	0.2%
Span	24,126	3,428	604%	46,270	3,428	1,250%
Consolidation eliminations	(703)	(120)	(486)%	(1,120)	(212)	(428)%
Total	\$64,235	\$39,841	61.2%	\$120,827	\$71,504	69%
EBITDA						
Accessibility	\$7,803	\$5,652	38.1%	\$13,061	\$10,314	26.6%
% of revenue	23.3%	19.2%	n/a	21.3%	19.1%	n/a
Adapted vehicles	\$600	\$576	4.2%	\$1,105	\$1,285	(14)%
% of revenue	8.2%	8.2%	n/a	7.7%	9%	n/a
Span	\$3,868	\$108	3,481%	\$6,386	\$108	5,813%
% of revenue	16%	3.2%	n/a	13.8%	3.2%	n/a
Head Office	\$(1,109)	\$(1,401)	(20.8)%	\$(2,038)	\$(1,668)	22.2%
Total	\$11,162	\$4,935	126%	\$18,514	\$10,039	84.4%
% of revenue	17.4%	12.4%	n/a	15.3%	14%	n/a
Adjusted EBITDA						
Accessibility	\$7,803	\$5,652	38.1%	\$13,061	\$10,354	26.1%
% of revenue	23.3%	19.2%	n/a	21.3%	19.2%	n/a
Adapted vehicles	\$600	\$576	4.2%	\$1,105	\$1,285	(14)%
% of revenue	8.2%	8.2%	n/a	7.7%	9%	n/a
Span	\$2,295	\$443	418%	\$4,813	\$443	986%
% of revenue	9.5%	12.9%	n/a	10.4%	12.9%	n/a
Head Office	\$(592)	\$74	(900)%	\$(949)	\$(108)	779%
Total	\$10,106	\$6,745	49.8%	\$18,030	\$11,974	50.6%
% of revenue	15.7%	16.9%	n/a	14.9%	16.7%	n/a

Revenue of the *Accessibility* segment is up \$4 M, from \$29.5 M for the 2nd quarter of 2017 to \$33.5 M for the 2nd quarter of 2018 and up \$7.4 M for the first six months, from \$54 M in 2017 to \$61.4 M for the same period of 2018. This increase in revenue results from the addition of the activities of Master Lifts in the 4th quarter 2017 and of H.E.S. in April 2018. These acquisitions contributed \$1.5 M in the 2nd quarter and \$3.6 M for the six-month period. The balance comes from organic growth. Revenue for the *Adapted Vehicles* segment is slightly up by 3.4% in 2nd quarter of 2018 compared to 2nd quarter 2017, at \$7.3 M, and is stable for the six-month period, at \$14.3 M. The *Span* segment shows revenue up by \$20.7 M in the 2nd quarter of 2018 and \$42.8 M in the first six months of 2018 since it was present only from mid-June 2017 following its acquisition by Savaria. These results

are up 16.7% for the three-month period and 14% for the six-month period compared to the same periods previous year; these increases are primarily attributable to the medical business unit.

Adjusted EBITDA for the *Accessibility* segment increased by \$2.1 M in the 2nd quarter of 2018, from \$5.7 M in 2017 to \$7.8 M in 2018, and \$2.7 M in the first six months of 2018, from \$10.4 M in 2017 to \$13.1 M in 2018. The increase in percentage is higher than the increase in revenue due to an improvement in the percentage of the gross margin of this segment. The increase in adjusted EBITDA of the *Adapted Vehicles* segment is in line with the 2nd quarter revenue increase of 2018 in this segment, while the adjusted EBITDA for the first six months is somewhat down due to a lower gross margin percentage in 2018. The *Span* segment contributed \$1.9 M to the increase of the adjusted EBITDA for the 2nd quarter of 2018 and \$4.4 M for the first six months of 2018. In spite of the lower adjusted EBITDA percentage of this segment, at 9.5% in the 2nd quarter of 2018 and 10.4% in the first six months of 2018, the consolidated adjusted EBITDA is still very satisfactory thanks to the excellent performance of the *Accessibility* segment, which generated adjusted EBITDA of 23.3% in the 2nd quarter of 2018 and 21.3% in the first six months of 2018, compared to 19.2% for the same periods in 2017.

(in thousands of dollars, except for percentages)	As at June 30, 2018 (unaudited)	As at December 31, 2017 (recast ⁽¹⁾)	Change
Assets			
Accessibility	\$122,496	\$106,910	14.6%
Adapted vehicles	21,645	20,890	3.6%
Span	130,184	122,207	6.5%
Head Office	224,295	151,900	47.7%
Consolidation eliminations	(191,821)	(181,226)	(5.8)%
Total assets	\$306,799	\$220,681	39%

⁽¹⁾ Recast following the adjustment of the purchase price allocation of the 2017 business acquisitions.

Accessibility segment's assets are up 14.6% or \$15.6 M as at June 30, 2018 compared to December 31, 2017, mainly due to an increase in cash (+\$1 M), inventories in anticipation of the peak season and the launch of new products (+\$5.7 M), trade and other receivables (+\$1.7 M), fixed assets (+\$717,000), intangible assets and goodwill (+\$1.7 M), mainly related to the acquisition of H.E.S., and inter-company advances (+1.7 M \$). *Adapted Vehicles* segment's assets are up 3.6% or \$755,000 mainly due to an increase in cash (+\$1.1 M) and trade and other receivables (+\$156,000), partially offset by lower inventories (-\$862,000). *Span* segment's assets are up 6.5% or \$8 M due to an increase in cash (+\$1.1 M), trade and other receivables (+\$3.5 M) related to an increase in revenue in the 2nd quarter of 2018 compared to the 4th quarter of 2017, inventories (+\$1.6 M) and goodwill (+\$1.6 M) due to the increase in the end-of-period exchange rate.

Certain data on consolidated results for the 2nd quarter and first six months of 2018 and 2017 are presented in the following tables.

Gross Margin

(in thousands of dollars, except for percentages - unaudited)	3 Months			6 Months		
	2018	2017	Change	2018	2017	Change
Revenue	\$64,235	\$39,841	61.2%	\$120,827	\$71,504	69%
Cost of sales	\$42,533	\$26,718	59.2%	\$80,396	\$47,536	69.1%
Gross margin	\$21,702	\$13,123	65.4%	\$40,431	\$23,968	68.7%
% of revenue	33.8%	32.9%	n/a	33.5%	33.5%	n/a

Revenue for the 2nd quarter of 2018 is up by \$24.4 M or 61.2%, from \$39.8 M in 2017 to \$64.2 M in 2018. The addition of Span's activities in the 2nd quarter of 2017 contributed \$20.7 M to revenue increase for the quarter. Revenue for the first six months of 2018 is up by \$49.3 M or 69% compared to the same period of 2017. The addition of Span's activities contributed \$42.8 M to revenue increase for the first six months.

Gross margin is up by \$8.6 M for the 2nd quarter and \$16.5 M for the first six months of 2018 compared to the corresponding periods of 2017. As a percentage of revenue, gross margin increased from 32.9% to 33.8% for the 2nd quarter and remained stable at 33.5% for the first six months in spite of a lower contribution by Span to the consolidated gross margin, thanks to the good performance of the *Accessibility* segment. Thanks to its increase in revenue, the *Accessibility* segment's gross margin increased from 36.2% in the 2nd quarter of 2017 to 38.9% in the 2nd quarter of 2018, an increase of 2.7 percentage points. However, Span's gross margin was 28.6% in the 2nd quarter of 2018 and 29.8% in the first six months of 2018, compared with 31.5% in the first six months of 2017. Being lower than Savaria's gross margin excluding Span, it brought down the consolidated margin. Indeed, Span's gross margin decreased by 1.7 percentage points in the first six months of 2018 compared to the corresponding period of 2017 for the following reasons: a) the increase in the price of foam (+\$494,000), b) the increase in direct labour at the Beamsville plant due to the significant increase in the minimum wage in Ontario (+\$138,000) and c) a less profitable mix of sales in the medical business unit due to faster growth in our bed product lines, which tend to have lower gross margins than pressure management products. The increase in expenses, which represents \$1.3 M on an annual basis, will be offset by an increase of 4% of the selling prices of pressure management products. This increase will be reflected gradually on revenue over the next year. On an annual basis, the expected increase in revenue is \$1.8 M. Excluding Span's operations, in 2018 the consolidated gross margin would have been 36.9% in the 2nd quarter and 35.7% in the first six months.

The purchase volume from Asia allows us to maintain our direct costs at a competitive level. The proportion of purchases made by the subsidiary Savaria Concord from the subsidiary Savaria Huizhou and other suppliers in Asia remains high, at above 50% of its raw material purchases for the first six months of 2018.

Breakdown of Revenue by Country

(as a percentage of sales -unaudited)	3 Months			6 Months		
	2018	2017	Change	2018	2017	Change
Canada	29.5%	39.5%	(10)	30.7%	41.1%	(10.4)
United States	65.1%	53%	12.1	63.6%	52.7%	10.9
Other countries	5.4%	7.5%	(2.1)	5.7%	6.2%	(0.5)

Operating Income

(in thousands of dollars, except percentages - unaudited)	3 Months			6 Months		
	2018	2017	Change	2018	2017	Change
Operating costs	\$13,869	\$7,399	87.4%	\$26,757	\$13,576	97.1%
<i>% of revenue</i>	21.6%	18.6%	<i>n/a</i>	22.1%	19%	<i>n/a</i>
Other (income) expenses	\$(847)	\$1,252	(168)%	\$(502)	\$1,277	(139)%
Operating income	\$8,680	\$4,472	94,1%	\$14,176	\$9,115	55.5%
<i>% of revenue</i>	13.5%	11.2%	<i>n/a</i>	11.7%	12.7%	<i>n/a</i>

The proportion of operating expenses relative to revenue increased in the 2nd quarter and first six months of 2018 compared to the same periods in 2017, from 18.6% to 21.6% and from 19% to 22.1% respectively. In terms of dollars, operating expenses increased by \$6.5 M and \$13.2 M for the same periods, partly due to the acquisition of Premier Lifts during the 1st quarter of 2017, Span during the 2nd quarter of 2017, Master Lifts during the 4th quarter of 2017 and H.E.S. during the 2nd quarter of 2018; this increase includes an amortization expense of intangible assets related to the acquisitions of \$864,000 for the 2nd quarter and \$1.7 M for the first six months. Were it not for these acquisitions, operating expenses would have increased by \$764,000 and \$1.4 M for the same periods. These increases are mainly due to an increase in engineering and research and development expense (+\$550,000 for the quarter and +\$907,000 for the first six months), in stock-based compensation expense (+\$83,000 for the quarter and +\$212,000 for the first six months) and head office remuneration (+\$59,000 for the quarter and +\$164,000 for the first six months).

Other (income) expenses in the 2nd quarter and first six months of 2018 include an insurance claim income of \$1.6 M for the quarter and six-month period, partially offset by business acquisition costs of \$763,000 for the quarter and \$1.1 M for the six-month period compared to \$1.3 M in the 2nd quarter and first six months of 2017.

The combined effect of the favourable change in gross margin and the unfavourable variation in operating expenses and the favourable variation of other (income) expenses results in an increase in operating income of \$4.2 M for the 2nd quarter and \$5.1 M for the first six months of 2018 compared to the same periods in 2017.

Net Income

(in thousands of dollars, except percentages - unaudited)	3 Months			6 Months		
	2018	2017	Change	2018	2017	Change
Net finance costs	\$88	\$198	(55.6)%	\$477	\$357	33.6%
Income before income tax	\$8,592	\$4,274	101%	\$13,699	\$8,758	56.4%
Income tax expense	\$2,216	\$1,510	46.8%	\$3,551	\$2,657	33.6%
Net income	\$6,376	\$2,764	131%	\$10,148	\$6,101	66.3%
<i>% of revenue</i>	9.9%	6.9%	<i>n/a</i>	8.4%	8.5%	<i>n/a</i>
EBITDA	\$11,162	\$4,935	126%	\$18,514	\$10,039	84.4%
<i>% of revenue</i>	17.4%	12.4%	<i>n/a</i>	15.3%	14%	<i>n/a</i>
Adjusted EBITDA	\$10,106	\$6,745	49.8%	\$18,030	\$11,974	50.6%
<i>% of revenue</i>	15.7%	16.9%	<i>n/a</i>	14.9%	16.7%	<i>n/a</i>

The favourable variation in net finance costs for the 2nd quarter of 2018 of \$110,000 compared to the same period in 2017 is mainly due to a favourable variation in net foreign exchange gains of \$345,000 and a gain on financial instrument of \$503,000 (see *Operations in Foreign Exchange* in section 4), offset by an increase in interest expense on long-term debt of \$696,000. The unfavourable variation of \$120,000 for the first six months of 2018 compared to the same period of 2017 is mainly due to an increase in interest expense on long-term debt of \$957,000 and a decrease in interest income of \$105,000, partially offset by a favourable variation in net foreign exchange gains of \$542,000 and the gain on financial instrument of \$503,000 (see *Operations in Foreign Exchange* in section 4).

The effective income tax rate of 25.8% for the 2nd quarter and 25.9% for the first six months of 2018 has decreased compared to the rates of 35.3% and 30.3% for the same periods previous year.

Net income is up \$3.6 M for the 2nd quarter and \$4 M for the first six months of 2018 compared to the same periods previous year. Span's positive impact amounts to \$1.9 M and \$2.2 M of this variation respectively. Adjusted EBITDA is up \$3.4 M in the 2nd quarter and \$6.1 M for the first six months of 2018 compared to the same periods in 2017; Span's positive impact amounts to \$1.9 M and \$4.4 M of this variation respectively. In the

Accessibility segment, the Brampton subsidiary contributed \$1.4 M and \$2.1 M respectively to the increase in the 2nd quarter and first six months.

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 contract maturity, gains and losses are reclassified against revenue in net earnings.

As at June 30, 2018, the Corporation held foreign exchange contracts totaling \$70.5 M U.S. for a hedging period up to May 2022, at a weighted average rate of 1.2931. As at June 30, 2018, the unrealized loss on the foreign exchange contracts amounted to \$818,000 before deferred taxes and is reflected on the statement of financial position under *Derivative financial instruments* of current and non-current assets and current and non-current liabilities and is included in the *Accumulated other comprehensive income* balance.

The Corporation designates its US dollar denominated debt as a hedge for its net investment in its new *Span* subsidiary in the United States. This accounting treatment allows the Corporation to offset the designated portion of foreign exchange gain (or loss) from its debt against the foreign exchange loss (or gain) of its net investment in its subsidiary *Span* and to present it in other comprehensive income. For the quarter and six-month period ended June 30, 2018, foreign exchange gains of \$282,000 (\$245,000 after tax) and \$686,000 (\$483,000 after tax) were recorded in other comprehensive income.

Hedging of Interest Rates

Since its debts bear interest at variable rates, the Corporation decided to enter into interest rate swap agreements to minimize its risk of variation of cash flow related to changes in interest rates on a portion of its long-term debt. Two interest rate swap agreements were terminated during the 2nd quarter of 2018 as it was no longer probable that the related borrowings would continue to exist. Hedge accounting has been discontinued and the cash flow hedge reserve for which future cash flows are no longer expected to be realized, in the amount of \$503,000, has been reversed to net income under *Finance income*. As at June 30, 2018, the Corporation held a swap agreement in Canadian dollars at an interest rate of 4.27% including a 1.75% stamping fee on a capital of \$50 M for a 5-year period (for more details, refer to *Available Sources of Financing* in section 10).

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, 2018, the unrealized loss on the interest rate swaps is \$306,000 before deferred taxes and is presented in the statement of financial position under *Derivative financial instruments* of non-current liabilities, and is included in *Accumulated other comprehensive income*.

10. Financial Position

Working Capital

(in thousands of dollars)	June 30, 2018 (unaudited)	December 31, 2017 (recast ⁽¹⁾)	Change	
Current assets	\$152,489	\$75,363	\$77,126	102%
Current liabilities	\$36,954	\$31,246	\$5,708	18.3%
Working capital	\$115,535	\$44,117	\$71,418	162%
Current ratio	4.13	2.41	1.72	71.4%

⁽¹⁾ Recast following the adjustment of the purchase price allocation of the 2017 business acquisitions.

Current assets increased by \$77.1 M between December 31, 2017 and June 30, 2018, mainly due to an increase in cash (+\$65.6 M), in inventories (+\$6.3 M) and in trade and other receivables (+\$4.8 M). See subsection *Cash Flows* in section 11 for details on cash flow variations.

Current liabilities increased by \$5.7 M between December 31, 2017 and June 30, 2018, mainly due to an increase in trade and other payables (+\$2.8 M), in deferred revenue (+\$1.3 M) and in current tax liabilities (+\$1.1 M).

Note that the number of days required to recover accounts receivable was stable as at June 30, 2018, at 43 days, compared to December 31, 2017.

Non-current Assets and Liabilities and Equity

(in thousands of dollars)	June 30, 2018 (unaudited)	December 31, 2017 (recast ⁽¹⁾)	Change	
Non-current assets	\$154,310	\$145,318	\$8,992	6.2%
Non-current liabilities	\$72,145	\$50,652	\$21,493	42.4%
Equity	\$197,700	\$138,783	\$58,917	42.5%

⁽¹⁾ Recast following the adjustment of the purchase price allocation of the 2017 business acquisitions.

Non-current assets increased by \$9 M during the first six months of 2018, due to 1) a \$5 M deposit for the acquisition of Garaventa Accessibility AG ("Garaventa") (refer to section 15, *Subsequent Events*), 2) the increase in intangible assets and goodwill (+\$2.8 M), mainly due to the increase in the end-of-period exchange rate (+\$2.9 M), capitalized costs (+\$1.3 M) and the acquisition of H.E.S. (+\$1 M), partially offset by amortization expense (-\$2.4 M), 3) fixed assets (+\$1.7 M) and 4) deferred tax assets (+\$1.4 M), 5) partially offset by a

decrease in derivative financial instruments (- \$1.9 M) mainly related to a variation in unrealized gains (losses) on foreign exchange contracts.

Non-current liabilities increased by \$21.5 M during the first six months of 2018, mainly due to the increase in the non-current portion of the long-term debt (+\$20.9 M) and the variation in the gain (loss) of derivative financial instruments (+\$934,000).

The \$58.9 M increase in equity is mainly due to the bought deal placement completed during the 2nd quarter of 2018 (+\$54.7 M), to the impact of net income (+\$10.1 M) and the effect of the variation of the foreign exchange rates (+\$974,000) included in accumulated other comprehensive loss offset by declared dividends (-\$7.6 M).

As at June 30, 2018, Savaria benefited from a sound financial position with total assets of \$306.8 M, compared with \$220.7 M as at December 31, 2017, and total liabilities of \$109.1 M, compared with \$81.9 M as at December 31, 2017.

Share Information

(in thousands)	June 30, 2018 (unaudited)	December 31, 2017
Number of common shares issued and outstanding	44,835	41,250

(in thousands - unaudited)	Quarters ended June 30		Six Months ended June 30	
	2018	2017	2018	2017
Weighted average number of common shares outstanding used to calculate basic earnings per share	43,618	39,658	42,436	38,248
Weighted average number of common shares outstanding used to calculate diluted earnings per share	44,496	40,641	43,342	39,140

Available Sources of Financing

(in thousands of dollars)	June 30, 2018 (unaudited)	December 31, 2017
Credit facilities:		
Authorized	\$110,000	\$110,000
Loans	9,973	38,861
Unused credit	100,027	71,139
Gross cash	73,336	7,719
Total	\$173,363	\$78,858

As shown above, the Corporation had total available funds of \$173.4 M as at June 30, 2018. This provides it with the flexibility to meet its potential obligations in the near term and to pursue acquisition opportunities.

As per its financing agreement with its financial institution, a revolving line of credit totaling \$110 M is at the Corporation's disposal. The agreement provides for an additional credit of \$50 M, available under certain conditions. An amount of \$10 M was drawn as at June 30, 2018. Only interest is payable monthly. This debt is presented as long-term in the consolidated statement of financial position.

On April 3, 2018, the Corporation entered into an amended and restated credit agreement. This agreement amends and updates the original credit agreement (i) by providing a \$50 M term facility whose funds were received on April 3, 2018; (ii) by adding the possibility of drawing in euros; and (iii) by postponing by one year the maturity date of the \$110 M revolving facility to April 3, 2023. The term facility is hedged by an interest rate swap (see *Hedging of Foreign Exchange Rates* in section 9 for details). Only interest is payable monthly. The credit facility is secured by the assets of the Corporation.

On May 4, 2018, the Corporation completed a bought deal placement of 3,450,000 common shares at a price of \$16.60 per share, for gross proceeds of \$57.3 M and proceeds, net of transaction fees of \$3.5 M, of \$53.8 M.

A process for consolidating Canadian dollars and US dollars bank accounts in Canada is in place. Under this process, any daily net debit balance is applied against the balance of the credit line while any daily net credit balance increases the balance of the credit line.

The Corporation minimizes its exposure to risks of variation of cash flow related to fluctuations in interest rates by keeping most of its debt at fixed rates using swap agreements (see *Hedging of Interest Rates* in section 9).

As at June 30, 2018, the Corporation's debt-to-equity ratio is nil as the Corporation's cash position is greater than its long-term debt (18.8% as at December 31, 2017).

Other Data and Ratios

(in thousands of dollars, except per-share amounts - unaudited)	June 30, 2018	December 31, 2017	Change
Book value per share ⁽¹⁾	\$4.41	\$3.36	31.3%
Cash per share ⁽¹⁾	\$1.64	\$0.19	763%
Market capitalization	\$718,712	\$751,583	(4.4)%

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

Book value per share is up as at June 30, 2018 compared to December 31, 2017, mainly due to an increase in equity due to the placement completed during the 2nd quarter of 2018. Cash per share increased as a result of the increase of \$65.6 M in cash position for the first six months of 2018 related to the receipt of a term loan and the proceeds of the bought deal private placement. Market capitalization is down due to a decrease in the stock price of the Corporation's shares, which went from \$18.22 as at December 31, 2017 to \$16.03 as at June 30, 2018.

11. Cash Flows

The following table presents certain cash flow data for 2nd quarter and first six months of 2018 and 2017.

	3 Months			6 Months		
(in thousands of dollars - unaudited)	2018	2017	Change	2018	2017	Change
Cash at the beginning of the periods	\$5,830	\$51,749	\$(45,919)	\$7,719	\$51,230	\$(43,511)
Net cash related to operating activities	7,011	2,511	4,500	9,142	5,290	3,852
Net cash related to investing activities	(8,183)	(103,211)	95,028	(9,614)	(107,915)	98,301
Net cash related to financing activities	68,635	55,834	12,801	65,902	58,465	7,437
Unrealized foreign exchange gain (loss) on cash held in foreign currencies	43	(110)	153	187	(297)	484
Cash as at June 30	\$73,336	\$6,773	\$66,563	\$73,336	\$6,773	\$66,563

The Corporation's cash flows from operating activities are up \$4.5 M for the 2nd quarter and \$3.9 M in the first six months compared to the same periods of the previous year. These variation are primarily due to a favourable variation in net income before tax, depreciation and financial charges (+\$6.3 M for the quarter, +\$8.5 M for the six-month period), partially offset by the unfavourable variation in non-cash items (-\$1 M for the quarter, -\$4.2 M for the six-month period - mainly due to variations in inventories, deferred income, trade and other receivables and trade and other payables).

Cash flow used in investing activities is down \$95 M in the 2nd quarter and \$98.3 M for the first six months of 2018 compared to the same periods of the previous year. This is mainly due to lower disbursements related to business acquisitions and deposits on acquisitions of \$92.2 M for the quarter and \$96.3 M for the six-month period, and additions and deposits on additions to fixed assets of \$3.2 M for the quarter and \$2.4 M for the first six months.

Regarding financing activities, cash flows are up \$12.8 M for 2nd quarter and \$7.4 M for the first six months of 2018 compared to the same periods of the previous year. These variations are mainly due to the favourable variation in the receipt of proceeds related to the issuance of shares of \$17.4 M for the quarter and the first six months of 2018, reduced by the absence of funds coming from the exercise of warrants of \$2.3 M for the quarter and \$ 7.9 M for the first six months of 2018 and the higher payment in dividends of \$1.1 M for the quarter and \$2.5 M for the six-month period.

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 and inventory obsolescence 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 accounting 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, 2018:

- *Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)*
- *IFRS 9 - Financial Instruments*
- *IFRS 15 - Revenue from Contracts with Customers*
- *IFRIC 22 - Foreign Currency Transactions and Advance Consideration*

None of these amendments had a significant impact on the financial statements except for IFRS 15 which had an impact on the presentation of freight revenue. In line with IFRS 15, it has been determined that freight is a service distinct from the sale of goods; the amount invoiced to the customer must thus be added to revenue while the amount invoiced by the carrier must be added to the cost of sales. This change had no impact on the Corporation's net income, but it increased both its revenue and its cost of sales by the same amount. To reflect this change in the comparative results for 2017, revenue and cost of sales were both increased by \$707,000 each for the 2nd quarter and \$1.2 M each for the first six months.

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 2017 annual Management's Report, an evaluation has been conducted to measure the effectiveness of controls and procedures as of December 31, 2017 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 2017 annual Management's Report, management has evaluated the effectiveness of internal control over financial reporting as of December 31, 2017.

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 2018 that materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

14. 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 2017 annual Management's Report, which are incorporated herein by reference:

- Exchange rates
- Interest rates
- Prices
- Credit
- Liquidity
- Economic conditions
- Warranties
- Competition
- Dependence on key distributors and large customers
- Dependence on the U.S. market
- Fluctuation in raw material prices
- Laws and regulations
- Information system
- Business acquisitions and their Integration
- Tax credits
- Deferred tax assets
- Lawsuits

15. Subsequent events

On July 10, 2018, Savaria announced that it had entered into an agreement with Garaventa Accessibility AG ("Garaventa") pursuant to which Savaria would acquire all of the issued and outstanding shares of Garaventa, for a total purchase price of approximately \$97.8 M (CHF 74 M). Established in 1978 as the accessibility division of the former Garaventa Holding AG (now the Doppelmayr/Garaventa Group), Garaventa manufactures a wide range of wheelchair lifts, including inclined platform lifts, vertical platform lifts and portable wheelchair lifts for persons with disabilities. It also manufactures a full suite of residential elevators and commercial limited use, limited application (LULA) elevators. This acquisition will be accounted for in accordance with IFRS 3, *Business combinations*. The Corporation paid a deposit of \$5 M (CHF 3.8 M) during the 2nd quarter of 2018.

On July 20, 2018, the Corporation completed the acquisition of Visilift, which manufactures and markets round and octagonal panoramic glass or acrylic elevators for the residential market; it had paid a deposit towards the acquisition in August 2017. The total consideration amounts to \$6.4 M (\$5 M US) of which \$4.4 M (\$3.5 M US) has been paid on the date of the agreement and \$2 M (\$1.5 M US) will be paid upon the completion of certain

closing conditions. In addition to the Purchase Price, Visilift will have the opportunity to earn an additional payment of \$3.9 M (\$3 M US) upon achieving certain performance metrics over a three-year period.

16. Outlook

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

The development of a new product line of ceiling lifts is progressing at our research and development center in Magog, Quebec. In the United States, these products are distributed by the Span subsidiary, which staffs 33 sales representatives serving this market; marketing began in the first quarter of 2018.

The acquisition of Visilift will expand our elevators offering by adding a deluxe circular or octagonal elevator requiring no shaft. Sales began in the first quarter of 2018. In addition to North America, this product will be available on the international market, such as Australia, China and Europe.

In December 2017, Savaria purchased the assets of Master Lifts, a reseller of accessibility products and elevators. Master Lifts's purchases of Savaria products from our Chinese subsidiary account for approximately 50% of their purchases. We plan to increase this percentage to 75% by the end of 2018.

Savaria remains abreast of strategic acquisition opportunities that would allow it to further its growth and strengthen its key player position in the accessibility market.

Factoring in the benefits of the acquisition of Master Lifts that was completed in December 2017, as well as our new *Vuelift* elevators, we forecast revenue of approximately \$268 M and adjusted EBITDA in a range of \$42.5-\$44.5 M for fiscal 2018. These forecasts do not include the acquisition of H.E.S. in April 2018 nor the impact of any acquisitions that might take place in the remainder of 2018.

August 8, 2018