



K-BRO DELIVERS Q3 2022 RESULTS WITH CONTINUED STRONG RECOVERY IN HOSPITALITY REVENUE

(TSX: KBL)

Edmonton, Canada (November 9, 2022) – K-Bro Linen Inc. (“K-Bro” or the “Corporation”) today announces its Q3 2022 financial and operating results.

Q3 2022 Financial and Operating Highlights

- Consolidated hospitality revenue in the third quarter of 2022 increased by 39.0% compared to the third quarter of 2021.
- Consolidated healthcare revenue in the third quarter of 2022 increased by 8.8% compared to the third quarter of 2021.
- EBITDA decreased in the third quarter to \$11.0 million compared to \$11.6 million over the comparable 2021.
- Net earnings in the third quarter of 2022 increased by \$0.4 million to \$2.5 million compared to \$2.1 million in the comparative period of 2021, and as a percentage of revenue decreased by 0.2% to 3.3%.
- For the third quarter of 2022, K-Bro declared dividends of \$0.300 per common share.
- Long-term debt at the end of Q3 2022 was \$39.1 million compared to \$38.0 million at the end of fiscal 2021 reflecting our strong balance sheet.

Linda McCurdy, President & CEO of K-Bro, commented that “I am pleased with our third quarter results and the strong top-line growth in both hospitality and healthcare, and the results bode well for our future performance. We continue to see strong volumes in our Canadian and UK businesses. As a result of the COVID pandemic and certain geopolitical events, we are experiencing temporary labour inefficiencies and energy costs increases, and we have been successful in working with many of our Canadian and UK customers to implement price increases to offset these higher input costs. We have begun to see some benefit from these price increases, the full impact of which we will see in 2023.

“In addition, we have reopened our Perth facility in Scotland, which was temporarily closed as a result of falling volume during the pandemic. We are now operating all of our facilities as a result of the strong volume recovery.

“Going forward we expect to continue to benefit from the strong recovery in hospitality volumes in both Canada and the UK, and the full impact of our new AHS province-wide contract. We anticipate a return to 2019 margins in the second half of 2023.”

“We will continue to look to leverage our strong liquidity position, balance sheet and access to the capital markets to execute on M&A opportunities in North America and Europe as they arise,” concluded McCurdy.

Highlights and Significant Events for Fiscal 2022

Capital Investment Plan

For fiscal 2022, the Corporation's planned capital spending is expected to be approximately \$5.0 million on a consolidated basis. This guidance includes both strategic and maintenance capital requirements to support existing base business in both Canada and the UK and does not take into account amounts accrued in 2021 that are to be paid in 2022, nor does this account for the projected \$10.0 million in additional capital expenditures to support new AHS business that was announced earlier in 2021 and is discussed above under the Alberta Contract Award. We will continue to assess capital needs within our facilities and prioritize projects that have shorter term paybacks as well as those that are required to maintain efficient and reliable operations.

COVID-19 Risk and Geopolitical Stability

The ongoing COVID-19 pandemic has caused world governments to institute travel restrictions both in and out of and within Canada and the UK, which has had, and is expected to continue to have an adverse impact on the Corporation's hospitality business. While government-imposed restrictions eased significantly over the course of 2022, and vaccination rates continued to rise, the uncertainty regarding the ongoing COVID-19 pandemic remains a threat to the continued recovery in the Corporation's hospitality business. The COVID-19 pandemic has also contributed to unusually competitive labour markets, causing inefficiencies in attracting, training and retaining employees. While the Corporation anticipates labour markets will stabilize, the timing remains uncertain.

In addition to this, certain geopolitical events and other factors have resulted in rising and unstable commodity costs for key inputs such as natural gas, electricity and diesel. In the event these cost increases exceed price increase mechanisms this could have an adverse effect on our business prospects and results of operations.

The Corporation's Credit Facility is subject to floating interest rates and, therefore, is subject to fluctuations in interest rates which are beyond the Corporation's control. Increases in interest rates, both domestically and internationally, could negatively affect the Corporation's cost of financing its operations and investments.

Month	Healthcare Revenue Change (2021 compared to 2019)	Hospitality Revenue Change (2021 compared to 2019)	Consolidated Revenue Change (2021 compared to 2019)	Month	Healthcare Revenue Change (2022 compared to 2019)	Hospitality Revenue Change (2022 compared to 2019)	Consolidated Revenue Change (2022 compared to 2019)
January	25%	-80%	-14%	January	24%	-37%	1%
February	26%	-82%	-19%	February	28%	-26%	5%
March	28%	-80%	-20%	March	30%	-10%	12%
Q1 2021 compared to Q1 2019 (Jan to March)	26%	-81%	-18%	Q1 2022 compared to Q1 2019 (Jan to March)	27%	-23%	6%
April	24%	-81%	-22%	April	24%	-7%	11%
May	21%	-69%	-19%	May	26%	-3%	13%
June	22%	-49%	-13%	June	26%	-8%	9%
Q2 2021 compared to Q2 2019 (April to June)	23%	-66%	-18%	Q2 2022 compared to Q2 2019 (April to June)	25%	-6%	11%
July	16%	-40%	-11%	July	20%	-4%	9%
August	11%	-30%	-9%	August	27%	-2%	12%
September	12%	-28%	-8%	September	22%	-13%	5%
Q3 2021 compared to Q3 2019 (July to September)	13%	-33%	-9%	Q3 2022 compared to Q3 2019 (July to September)	23%	-6%	9%
October	12%	-28%	-5%	October			
November	19%	-23%	1%	November			
December	20%	-23%	1%	December			
Q4 2021 compared to Q4 2019 (October to December)	17%	-25%	-1%	Q4 2022 compared to Q4 2019 (October to December)			
YTD	20%	-49%	-11%	YTD	25%	-11%	9%

The duration and full financial effects of the COVID-19 pandemic, geopolitical events and rising interest rates, continue to be uncertain at this time. The Corporation is managing ongoing risks through the Corporation's business continuity plan and other mitigating measures. Any estimate of the length and severity of these developments is therefore subject to significant uncertainty.

Uncertainty about judgments, estimates and assumptions made by management during the preparation of the Corporation's consolidated financial statements related to potential impacts of the COVID-19 pandemic, geopolitical events and rising interest rates on revenue, expenses, assets, liabilities, and note disclosures could result in a material adjustment to the carrying value of the asset or liability affected.

Based on management's review, there were no CGUs as at September 30, 2022 showing signs of impairment that were not already considered at December 31, 2021. The Corporation will continue to carefully monitor the situation as it pertains to COVID-19 and further consider if there are new, or additional indicators, that exist during the year.

Financial Results

For The Three Months Ended September 30,

(thousands, except per share amounts and percentages)	Canadian Division 2022	UK Division 2022	2022	Canadian Division 2021	UK Division 2021	2021	\$ Change	% Change
Revenue	\$ 55,067	\$ 18,561	\$ 73,628	\$ 46,169	\$ 15,324	\$ 61,493	12,135	19.7%
Expenses included in EBITDA	46,037	16,570	62,607	36,659	13,237	49,896	12,711	25.5%
EBITDA	9,030	1,991	11,021	9,510	2,087	11,597	(576)	-5.0%
EBITDA as a % of revenue	16.4%	10.7%	15.0%	20.6%	13.6%	18.9%	-3.9%	-20.6%
Net earnings (loss)	2,122	334	2,456	2,944	(796)	2,148	308	14.3%
Basic earnings (loss) per share	\$ 0.199	\$ 0.031	\$ 0.230	\$ 0.277	\$ (0.075)	\$ 0.202	\$ 0.028	13.9%
Diluted earnings (loss) per share	\$ 0.197	\$ 0.031	\$ 0.228	\$ 0.275	\$ (0.074)	\$ 0.201	\$ 0.027	13.4%
Dividends declared per diluted share			\$ 0.30			\$ 0.300	\$ -	0.0%
Total assets			321,527			330,494	(8,967)	-2.7%
Long-term debt (excludes lease liabilities)			39,141			38,270	871	2.3%
Cash provided by operating activities			11,530			12,543	(1,013)	-8.1%
Net change in non-cash working capital items			1,204			1,978	(774)	-39.1%
Share-based compensation expense			438			486	(48)	-9.9%
Maintenance capital expenditures			520			426	94	22.1%
Principal elements of lease payments			1,834			1,765	69	3.9%
Distributable cash flow			7,534			7,888	(354)	-4.5%
Dividends declared			3,234			3,216	18	0.6%
Payout ratio			42.9%			40.8%	2.1%	5.1%

For The Nine Months Ended September 30,

(thousands, except per share amounts and percentages)	Canadian Division 2022	UK Division 2022	2022	Canadian Division 2021	UK Division 2021	2021	\$ Change	% Change
Revenue	\$ 157,584	\$ 48,368	\$ 205,952	\$ 135,027	\$ 26,755	\$ 161,782	44,170	27.3%
Expenses included in EBITDA	132,964	45,222	178,186	103,137	24,782	127,919	50,267	39.3%
EBITDA	24,620	3,146	27,766	31,890	1,973	33,863	(6,097)	-18.0%
EBITDA as a % of revenue	15.6%	6.5%	13.5%	23.6%	7.4%	20.9%	-7.4%	-35.4%
Net earnings (loss)	5,220	(1,594)	3,626	11,561	(4,368)	7,193	(3,567)	-49.6%
Basic earnings (loss) per share	\$ 0.490	\$ (0.150)	\$ 0.340	\$ 1.090	\$ (0.412)	\$ 0.678	\$ (0.338)	-49.9%
Diluted earnings (loss) per share	\$ 0.487	\$ (0.149)	\$ 0.338	\$ 1.083	\$ (0.409)	\$ 0.674	\$ (0.336)	-49.9%
Dividends declared per diluted share			\$ 0.90			\$ 0.900	\$ -	0.0%
Total assets			321,527			330,494	(8,967)	-2.7%
Long-term debt (excludes lease liabilities)			39,141			38,270	871	2.3%
Cash provided by operating activities			25,081			24,132	949	3.9%
Net change in non-cash working capital items			(625)			(4,352)	3,727	85.6%
Share-based compensation expense			1,378			1,431	(53)	-3.7%
Maintenance capital expenditures			2,288			813	1,475	181.4%
Principal elements of lease payments			5,489			5,359	130	2.4%
Distributable cash flow			16,551			20,881	(4,330)	-20.7%
Dividends declared			9,678			9,630	48	0.5%
Payout ratio			58.5%			46.1%	12.4%	26.9%

(1) See "Terminology" for further details

Dividends

The Board of Directors has declared a monthly dividend of \$0.10 per common share for the period from November 1 to November 31, 2022, to be paid on December 15, 2022 to shareholders of record on November 31, 2022. The Corporation's policy is for shareholders of record on the last business day of a calendar month to receive dividends during the fifteen days following the end of such month. K-Bro designates this dividend as an eligible dividend pursuant to subsection 89(14) of the *Income Tax Act* (Canada) and similar provincial and territorial legislation.

OUTLOOK

The Corporation's healthcare segment continues to outperform relative to historical levels. For the hospitality segment, management expects that the current trend towards easing of government-imposed restrictions on international border crossings, increasing business/leisure travel will continue to support the strong recovery momentum in hospitality revenues experienced through 2022.

For the last few quarters, management has been focused on operational efficiencies and the transition of new AHS business, which was completed in early April 2022. Over the balance of 2022, management will continue to focus on optimizing plant efficiencies associated with the transition of new AHS business.

From an input cost perspective, since early March 2022, particularly in the UK, the Corporation has faced significant volatility in energy costs due to current geopolitical issues. In April 2022, to mitigate this instability, the Corporation locked in natural gas supply rates in the UK until December 2024. Based on these locked in rates we anticipate natural gas as a percent of revenue to increase 2 percentage points from historical levels for 2022. We expect to mitigate these cost increases with price increases to our customers although there could be some delay.

The Corporation is also facing temporary labour inefficiencies from unusually competitive labour markets. Management is focused on retention of existing staff, in addition to implementing strategies to recruit and hire new staff. The Corporation has achieved some success in certain markets but is still focusing efforts on other markets.

Management is confident in their ability to return to historical 2019 margin levels once we gain efficiencies from the AHS transition however this will also be dependent on our ability to attract and retain staff in each of the markets in which we operate. Management anticipates labour markets will stabilize, but the timing remains uncertain.

Management continues to evaluate opportunities to accelerate growth through M&A opportunities in both North America and Europe, which remain highly fragmented. K-Bro will look to leverage its strong liquidity position, balance sheet and access to the capital markets to execute on these opportunities, should they arise. For further information about the impact of the COVID-19 pandemic on our business, see the "Summary of Interim Results, and Key Events".

CORPORATE PROFILE

K-Bro is the largest owner and operator of laundry and linen processing facilities in Canada and a market leader for laundry and textile rental services in Scotland and the North East of England. K-Bro and its wholly-owned subsidiaries operate across Canada and the UK, providing a range of linen services to healthcare institutions, hotels and other commercial accounts that include the processing, management and distribution of general linen and operating room linen.

The Corporation's operations in Canada include nine processing facilities and two distribution centres under three distinctive brands: K-Bro Linen Systems Inc., Buanderie HMR and Les Buanderies Dextraze. The Corporation operates in ten Canadian cities: Québec City, Montréal, Toronto, Regina, Saskatoon, Prince Albert, Edmonton, Calgary, Vancouver and Victoria.

The Corporation's operations in the UK include Fishers, which was acquired by K-Bro on November 27, 2017. Fishers was established in 1900 and is a leading operator of laundry and linen processing facilities in Scotland, providing linen rental, workwear hire and cleanroom garment services to the hospitality, healthcare, manufacturing and pharmaceutical sectors. The Corporation operates six UK sites located in Cupar, Perth, Newcastle, Livingston and Coatbridge.

Additional information regarding the Corporation including required securities filings are available on our website at www.k-brolinen.com and on the Canadian Securities Administrators' website at www.sedar.com; the System for Electronic Document Analysis and Retrieval ("SEDAR").

TERMINOLOGY

Throughout this news release and other documents referred to herein, and in order to provide a better understanding of the financial results, K-Bro uses the terms "EBITDA", "adjusted EBITDA", "adjusted net earnings", "adjusted net earnings per share", "debt to total capital", "distributable cash" and "payout ratio". These terms do not have any standardized meaning under International Financial Reporting Standards ("IFRS") as set out in the CICA Handbook. Therefore, EBITDA, adjusted EBITDA, adjusted net earnings, adjusted net earnings per share, distributable cash and payout ratio may not be comparable to similar measures presented by other issuers. Specifically, the terms "EBITDA", "adjusted EBITDA", "adjusted net earnings", "adjusted net earnings per share", "distributable cash", and "payout ratio" have been defined as follows:

EBITDA

K-Bro reports EBITDA (Earnings before interest, taxes, depreciation and amortization) as a key measure used by management to evaluate performance. EBITDA is utilized to measure compliance with debt covenants and to make decisions related to dividends to Shareholders. We believe EBITDA assists investors to assess our performance on a consistent basis as it is an indication of our capacity to generate income from operations before taking into account management's financing decisions and costs of consuming tangible and intangible capital assets, which vary according to their vintage, technological currency and management's estimate of their useful life. Accordingly, EBITDA comprises revenues less operating costs before financing costs, capital asset and intangible asset amortization, and income taxes.

EBITDA is a sub-total presented within the statement of earnings in accordance with the amendments made to IAS 1 which became effective January 1, 2016. EBITDA is not considered an alternative to net earnings in measuring K-Bro's performance. EBITDA should not be used as an exclusive measure of cash flow since it does not account for the impact of working capital changes, capital expenditures, debt changes and other sources and uses of cash, which are disclosed in the consolidated statements of cash flows.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(thousands)	2022	2021	2022	2021
Net earnings	\$ 2,456	\$ 2,148	\$ 3,626	\$ 7,193
Add:				
Income tax expense	759	1,782	1,236	3,787
Finance expense	1,340	883	3,341	2,649
Depreciation of property, plant and equipment	5,854	5,927	17,646	17,667
Amortization of intangible assets	612	857	1,917	2,567
EBITDA	\$ 11,021	\$ 11,597	\$ 27,766	\$ 33,863

Non-GAAP Measures

Distributable Cash Flow

Distributable cash flow is a measure used by management to evaluate the Corporation's performance. While the closest IFRS measure is cash provided by operating activities, distributable cash flow is considered relevant because it provides an indication of how much cash generated by operations is

available after capital expenditures. It should be noted that although we consider this measure to be distributable cash flow, financial and non-financial covenants in our credit facilities and dealer agreements may restrict cash from being available for dividends, re-investment in the Corporation, potential acquisitions, or other purposes. Investors should be cautioned that distributable cash flow may not actually be available for growth or distribution from the Corporation. Management refers to “Distributable cash flow” as to cash provided by (used in) operating activities with the addition of net changes in non-cash working capital items, less share-based compensation, maintenance capital expenditures and principal elements of lease payments.

(thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Cash provided by operating activities	\$ 11,530	\$ 3,047	\$ 25,081	\$ 11,589
Deduct (add):				
Net changes in non-cash working capital items	1,204	(7,022)	(625)	(6,330)
Share-based compensation expense	438	439	1,378	945
Maintenance capital expenditures	520	275	2,288	387
Principal elements of lease payments	1,834	1,742	5,489	3,594
Distributable cash flow	\$ 7,534	\$ 7,613	\$ 16,551	\$ 12,993

Payout Ratio

“Payout ratio” is defined by management as the actual cash dividend divided by distributable cash. This is a key measure used by investors to value K-Bro, assess its performance and provide an indication of the sustainability of dividends. The payout ratio depends on the distributable cash and the Corporation’s dividend policy.

(thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
Cash dividends	3,234	3,211	9,678	6,415
Distributable cash flow	7,534	7,613	16,551	12,993
Payout ratio	42.9%	42.2%	58.5%	49.4%

Debt to Total Capital

“Debt to total capital” is defined by management as the total long-term debt (excludes lease liabilities) divided by the Corporation’s total capital. This is a measure used by investors to assess the Corporation’s financial structure.

Distributable cash flow, payout ratio, debt to total capital adjusted EBITDA, adjusted net earnings, and adjusted net earnings per share are not calculations based on IFRS and are not considered an alternative to IFRS measures in measuring K-Bro’s performance. Distributable cash Flow, payout ratio, adjusted EBITDA, adjusted net earnings, and adjusted net earnings per share do not have standardized meanings in IFRS and are therefore not likely to be comparable with similar measures used by other issuers.

FORWARD LOOKING STATEMENTS

This news release contains forward-looking information that represents internal expectations, estimates or beliefs concerning, among other things, future activities or future operating results and various components thereof. The use of any of the words “anticipate”, “continue”, “expect”, “may”, “will”, “project”, “should”, “believe”, and similar expressions suggesting future outcomes or events are intended to identify forward-looking information. Statements regarding such forward-looking information reflect management’s current beliefs and are based on information currently available to management.

These statements are not guarantees of future performance and are based on management’s estimates and assumptions that are subject to risks and uncertainties, which could cause K-Bro’s actual performance and financial results in future periods to differ materially from the forward-looking information contained in this news release. These risks and uncertainties include, among other things: (i) risks associated with acquisitions, including the possibility of undisclosed material liabilities; (ii) K-Bro’s competitive environment; (iii) utility costs, minimum wage legislation and labour costs; (iv) K-Bro’s dependence on long-term contracts with the associated renewal risk including, without limitation, in connection with the settlement of definitive documentation in respect thereof; (v) increased capital expenditure requirements; (vi) reliance on key personnel; (vii) changing trends in government outsourcing; (viii) changes or proposed changes to minimum wage laws in Ontario, British Columbia, Alberta, Quebec, Saskatchewan and the United Kingdom (the “UK”); (ix) the availability of future financing; (x) textile demand; (xi) the adverse impact of the COVID-19 pandemic on the Corporation, which has been significant to date and which we believe will continue to be significant for the short to medium term; (xii) availability and access to labour; (xiii) rising wage rates in all jurisdictions the Corporation operates and (ix) foreign currency risk. Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking information include: (i) volumes and pricing assumptions; (ii) expected impact of labour cost initiatives; (iii) frequency of one-time costs impacting quarterly and annual financial results; (iv) foreign exchange rates; (v) the level of capital expenditures and (vi) the expected impact of the COVID-19 pandemic on the Corporation. Although the forward-looking information contained in this news release is based upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements. Certain statements regarding forward-looking information included in this news release may be considered “financial outlook” for purposes of applicable securities laws, and such financial outlook may not be appropriate for purposes other than this news release. Forward looking information included in this news release includes the expected annual healthcare revenues to be generated from the Corporation’s contracts with new customers, calculation of costs, including one-time costs impacting the quarterly financial results, anticipated future capital spending and statements with respect to future expectations on margins and volume growth, as well as statements related to the impact of the COVID-19 pandemic on the Corporation.

All forward-looking information in this news release is qualified by these cautionary statements. Forward-looking information in this news release is presented only as of the date made. Except as required by law, K-Bro does not undertake any obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances.

This news release also makes reference to certain measures in this document that do not have any standardized meaning as prescribed by IFRS and, therefore, are considered non-GAAP measures. These measures may not be comparable to similar measures presented by other issuers. Please see “Terminology” for further discussion.

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