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KBL-TSX

| | |
|------------|--|
| Rating: | Buy |
| Target: | \$49.00 |
| Price: | \$39.00 |
| Return: | 28.7% (inc. div yield) |
| Valuation: | 10x AFFO, 20x EPS, 9x EV/EBITDA (F2027 ests) |

FQ126 Update. Solid EBITDA/AFFO Performance Relative To Our Expectations In A Seasonally Soft Financial Period - Buy

AB-based linen/laundry processing firm K-Bro Linen reported FQ126 financial data for the March-end quarter that were sequentially soft as FQ1 data inevitably are on hospitality laundry processing volume softness, but in comparison to trailing FQ1 data, the quarter was strong on that basis & a full quarter of revenue/EBITDA contribution from less-hospitality-dependent UK-based Stellar Mayan (was called STAR Mayan at the time of its acquisition) was a key driver in the quarter.

Bottom line. Quarterly performance that we will describe below was certainly consistent with our pre-existing investment thesis & indeed outperformed on EBITDA margin for UK operations & surprisingly also for Canadian operations for which we had no expectations for any outsized EBITDA contribution in the period. Accordingly, we are maintaining our BUY rating & one-year PT of \$49.00 on KBL, with our valuation still based on multiples of our F2027 AFFO-EPS-EBITDA projections (\$5.01/shr, \$2.35/shr & \$106.5M, respectively) as summarized in Exhibit 1 & as described in Exhibit 2. At current levels, our PT corresponds to total return, including annual dividend of \$1.20/shr, of 28.7%.

Y/Y comparison to FQ125 is not overly meaningful with UK-based Stellar Mayan substantially impacting FQ126 data, but importantly revenue/EBITDA increased in absolute terms with EBITDA margin also growing in parallel. We will refrain from comparing FQ126 data to FQ125 data too excessively in our analysis that follows, simply because the Stellar Mayan acquisition was not material to FQ125 data & that acquisition has a huge impact on UK-based revenue/EBITDA, mitigating the excessive exposure to hospitality laundry processing operations that were brought to K-Bro operations through the Fishers Topco acquisition in Nov/17 & the Shortridge acquisition in Apr/24.

But what we will emphasize is the substantial y/y improvement in EBITDA margin not just for UK operations for which healthcare-based laundry-processing volumes at Stellar Mayan were destined to improve EBITDA/margin in a seasonally soft FQ126 period, independent of the upswing in absolute revenue/EBITDA levels that was inevitable based on T12M data generated by Stellar Mayan prior to its acquisition last year.

Canadian operations experience stronger-than-expected EBITDA margin in the period without acquisitive growth impacting the quarter as substantially as UK operations were. But Canadian operations generated cumulative EBITDA/margin of \$13.9M/20.1% that was well above our expectations both in comparison to Canadian FQ125 EBITDA/margin of \$10.0M/15.1% & in comparison sequentially to FQ425 data of \$14.3M/20.4% that is itself a seasonally soft quarter but one that typically outperforms FQ1 periods.

K-Bro stated explicitly in its MD&A that key EBITDA margin drivers were the elimination of the Canadian carbon tax (which transpired in FQ225 & thus was not unique to FQ126), labor efficiencies (which was ill-defined but possibly was automation-related) & reduced transaction costs (K-Bro does not typically allocate costs related to M&A activity into a separate category as most firms do).

Market Data

| | |
|------------------------|-----------------|
| Basic Shares O/S (M) | 13.0 |
| Market Cap (\$M) | \$506.6 |
| Enterprise Value (\$M) | \$701.8 |
| Pro forma cash (\$M) | \$30.9 |
| Pro forma debt (\$M) | \$226.0 |
| 52 Week Range | \$33.30-\$39.70 |
| Avg. Weekly Volume | 22,558 |
| Dividend yield (%) | 3.1% |
| Fiscal Year End | 31-Dec |

Financial Metrics

| In C\$M | 2025A | 2026E | 2027E |
|----------------------|--------|--------|--------|
| Total revenue | 506.8 | 598.4 | 611.2 |
| EBITDA | 90.9 | 105.2 | 106.5 |
| EBITDA growth (%) | 31.8% | 15.7% | 1.2% |
| EBITDA margin (%) | 17.9% | 17.6% | 17.4% |
| Net income, adjusted | 18.0 | 24.5 | 30.5 |
| EPS, adjusted | \$1.45 | \$1.89 | \$2.35 |
| Oper Cash Flow | 70.8 | 88.4 | 90.1 |
| Cash flow per share | \$5.06 | \$7.20 | \$6.89 |
| AFFO (FCF) per share | \$3.82 | \$4.74 | \$5.01 |
| Payout ratio (%) | 31.4% | 25.3% | 24.0% |

Valuation Data

| | | 2025A | 2026E | 2027E |
|-----------|---------|-------|-------|-------|
| EV/EBITDA | Current | 10.8x | 8.9x | 5.7x |
| | Peer | 12.7x | 12.6x | 10.1x |
| P/E | Current | 23.8x | 21.7x | 16.6x |
| | Peer | 26.2x | 21.4x | 19.3x |

Quarterly Data

| In US\$M | | Q1 | Q2 | Q3 | Q4 |
|----------|-------|-------|-------|-------|-------|
| Revenue | 2026E | 139.1 | 150.1 | 159.3 | 149.9 |
| | 2027E | 142.1 | 153.3 | 162.7 | 153.1 |
| EBITDA | 2026E | 22.6 | 29.4 | 30.1 | 23.3 |
| | 2027E | 21.0 | 30.0 | 31.2 | 24.3 |

Company Description

K-Bro Linen provides laundry and linen processing services for the healthcare and hospitality sectors in Canada & the UK

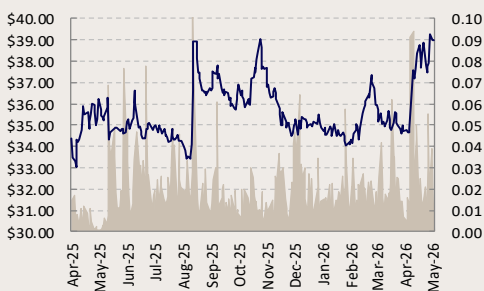


Exhibit 1. Financial Forecast Summary for K-Bro Linen

Year-end December 31

| (C\$000, except EPS) | 2017A | 2018A | 2019A | 2020A | 2021A | 2022A | 2023A | 2024A | 2025A | 2026E | 2027E | 2028E |
|-----------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Healthcare revenue | \$116,948 | \$128,933 | \$132,620 | \$144,715 | \$159,938 | \$167,239 | \$177,838 | \$189,400 | \$199,722 | \$204,706 | \$208,800 | \$212,976 |
| Hospitality revenue | \$48,883 | \$50,956 | \$54,004 | \$21,967 | \$23,135 | \$44,796 | \$63,291 | \$75,022 | \$79,089 | \$81,801 | \$84,255 | \$86,783 |
| International revenue (UK) | \$4,728 | \$59,645 | \$65,786 | \$29,909 | \$40,919 | \$64,588 | \$79,755 | \$109,187 | \$227,965 | \$311,868 | \$318,106 | \$324,468 |
| Total revenue | \$170,559 | \$239,534 | \$252,410 | \$196,591 | \$223,992 | \$276,623 | \$320,884 | \$373,609 | \$506,776 | \$598,375 | \$611,161 | \$624,227 |
| Revenue growth (%) | 7.2% | 40.4% | 5.4% | (22.1%) | 13.9% | 23.5% | 16.0% | 16.4% | 35.6% | 18.1% | 2.1% | 2.1% |
| EBITDA | \$24,021 | \$29,517 | \$47,565 | \$43,755 | \$42,791 | \$36,492 | \$56,806 | \$69,020 | \$90,934 | \$105,229 | \$106,503 | \$110,895 |
| EBITDA growth (%) | (14.9%) | 22.9% | 61.1% | (8.0%) | (2.2%) | (14.7%) | 55.7% | 21.5% | 31.8% | 15.7% | 1.2% | 4.1% |
| EBITDA margin (%) | 14.1% | 12.3% | 18.8% | 22.3% | 19.1% | 13.2% | 17.7% | 18.5% | 17.9% | 17.6% | 17.4% | 17.8% |
| Net income, operations | \$5,718 | \$6,169 | \$10,906 | \$3,782 | \$8,692 | \$3,906 | \$17,607 | \$18,708 | \$17,990 | \$24,535 | \$30,529 | \$38,093 |
| Net income, adjusted | \$5,754 | \$6,105 | \$10,898 | \$9,293 | \$8,692 | \$3,945 | \$17,607 | \$18,967 | \$17,990 | \$24,535 | \$30,529 | \$38,093 |
| EPS, operations | \$0.61 | \$0.59 | \$1.04 | \$0.36 | \$0.81 | \$0.36 | \$1.64 | \$1.77 | \$1.45 | \$1.89 | \$2.35 | \$2.93 |
| EPS, adjusted | \$0.61 | \$0.58 | \$1.04 | \$0.88 | \$0.81 | \$0.37 | \$1.64 | \$1.79 | \$1.45 | \$1.89 | \$2.35 | \$2.93 |
| Distribution | \$11,310 | \$12,610 | \$12,612 | \$12,702 | \$12,851 | \$12,878 | \$12,872 | \$12,692 | \$14,865 | \$15,589 | \$15,589 | \$15,589 |
| Distribution per share | \$1.20 | \$1.20 | \$1.20 | \$1.20 | \$1.20 | \$1.20 | \$1.20 | \$1.20 | \$1.20 | \$1.20 | \$1.20 | \$1.20 |
| Distributable cash | \$20,047 | \$24,765 | \$29,607 | \$31,249 | \$27,475 | \$19,572 | \$32,370 | \$39,611 | \$47,353 | \$61,569 | \$65,069 | \$67,558 |
| Oper cash flow (ex W/C) | \$22,702 | \$28,934 | \$42,050 | \$39,924 | \$37,585 | \$31,751 | \$47,118 | \$54,356 | \$70,783 | \$88,356 | \$90,109 | \$92,728 |
| AFFO/free cash flow | \$20,047 | \$24,765 | \$29,607 | \$31,249 | \$27,475 | \$19,572 | \$32,370 | \$39,611 | \$47,353 | \$61,569 | \$65,069 | \$67,558 |
| Cash flow per share | \$1.99 | \$1.67 | \$4.18 | \$4.01 | \$2.98 | \$2.43 | \$3.82 | \$4.72 | \$5.06 | \$7.20 | \$6.89 | \$7.18 |
| AFFO (FCF) per share | \$2.13 | \$2.36 | \$2.82 | \$2.95 | \$2.57 | \$1.82 | \$3.02 | \$3.75 | \$3.82 | \$4.74 | \$5.01 | \$5.20 |
| Payout ratio (%) | 56.4% | 50.9% | 42.6% | 40.6% | 46.8% | 65.8% | 39.8% | 32.0% | 31.4% | 25.3% | 24.0% | 23.1% |
| FCF yield (%) | 5.5% | 6.0% | 7.2% | 7.6% | 6.6% | 4.7% | 7.7% | 9.6% | 9.8% | 12.2% | 12.8% | 13.3% |
| P/E | 63.9x | 67.1x | 37.6x | 44.4x | 48.0x | 106.1x | 23.8x | 21.7x | 26.9x | 20.6x | 16.6x | 13.3x |
| EV/EBITDA | 25.5x | 20.7x | 12.9x | 14.0x | 14.3x | 16.8x | 10.8x | 8.9x | 6.7x | 5.8x | 5.7x | 5.5x |

Source: Historic data – K-Bro Linen financial filings; Forecasts/Estimates – Leede Financial Inc.

Going forward, our model will be somewhat more conservative on our FQ127/FQ128 EBITDA/margin expectations but we are cautiously optimistic in the potential for FQ126 Canadian EBITDA/margin data to be representative of future FQ1 performance. Shifting to UK operations, consolidated FQ126 UK EBITDA/margin were \$8.6M/12.4% & thus softer than Canadian operations as expected, but at least on margin, FQ126 UK EBITDA data substantially outperformed pre-Stellar Mayan FQ125 EBITDA margin of 9.8%, a period during which healthcare-based UK laundry processing volumes contributed only 6.4% of consolidated UK revenue as compared to 48.4% in FQ126.

Exhibit 2. Valuation Summary for K-Bro Linen

| | | | | | | | |
|--|----------------|------------|-------------|------------|--------------|------------|--------------|
| EPS multiple, F2027 | 5x | 10x | 15x | 20x | 25x | 30x | 35x |
| Implied unit price ^{1,2} | \$11.75 | \$23.50 | \$35.25 | \$47.00 | \$58.75 | \$70.50 | \$82.25 |
| AFFO multiple, F2027 | 2.5x | 5x | 7.5x | 10x | 12.5x | 15x | 17.5x |
| Implied unit price ^{1,2} | \$12.52 | \$25.04 | \$37.57 | \$50.09 | \$62.61 | \$75.13 | \$87.66 |
| EV/EBITDA multiple, F2027 | 3x | 5x | 7x | 8x | 9x | 11x | 13x |
| Implied share price (\$) ^{1,2} | \$9.57 | \$25.97 | \$42.37 | \$50.56 | \$58.76 | \$75.16 | \$91.56 |
| One-year K-Bro Linen target price (C\$) | \$49.22 | | | | | | |

¹ Based on F2027 forecasts (Adjusted EPS \$2.35, EBITDA \$106.5M, AFFO \$5.01/shr)

² EV incorporates FQ126 cash of \$30.9M, total debt of \$226.0M, basic S/O of 13.0M

Source: Leede Financial Inc.

Consolidated EBITDA data were correspondingly strong by FQ1 standard & after giving effect to Stellar Mayan's contribution to healthcare-based operations. On a consolidated basis, FQ126 EBITDA/margin were \$22.5M/16.2% that was predictably a bit below FQ425 data of \$25.1M/17.1% but well above FQ125 data of \$12.4M/13.6% - the absolute comparison to FQ125 EBITDA has minimal interpretive capacity just because it excludes any contribution from Stellar Mayan but we are nonetheless encouraged to see that Stellar Mayan's healthcare laundry processing operations (which exhibit minimal seasonality in comparison to hospitality operations) contributed positively to relative EBITDA margin in the period & to a degree that is reflected in consolidated margin as overtly as in UK-specific margin.

Exhibit 3. F2026E-to-F2028E Quarterly & Full-Year AFFO Forecasts for K-Bro Linen

| Year-end December 31 (C\$000, except share-based data) | 1Q-26 | 2Q-26E | 3Q-26E | 4Q-26E | 1Q-27E | 2Q-27E | 3Q-27E | 4Q-27E | 2026E | 2027E | 2028E |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Operating cash flow | 22,278 | 24,801 | 25,260 | 20,596 | 18,597 | 24,693 | 25,508 | 20,764 | 92,935 | 89,562 | 93,318 |
| Deduct (add): | | | | | | | | | | | |
| Working capital surplus (deficit) | 4,885 | (68) | (56) | 452 | 205 | (393) | (453) | 94 | 5,212 | (547) | 590 |
| Stock option expense | 732 | 732 | 732 | 732 | 732 | 732 | 732 | 732 | 2,928 | 2,928 | 2,928 |
| Payments on lease liabilities | 4,389 | 4,000 | 4,000 | 4,000 | 4,000 | 4,000 | 4,000 | 4,000 | 16,389 | 16,000 | 16,000 |
| Funds from operations (FFO) | 12,272 | 20,137 | 20,584 | 15,413 | 13,660 | 20,353 | 21,229 | 15,938 | 68,406 | 71,181 | 73,800 |
| FFO per share | \$0.94 | \$1.55 | \$1.58 | \$1.19 | \$1.05 | \$1.57 | \$1.63 | \$1.23 | \$5.27 | \$5.48 | \$5.68 |
| Deduct (add): | | | | | | | | | | | |
| Maintenance capex | (2,877) | (1,501) | (1,593) | (1,499) | (1,421) | (1,533) | (1,627) | (1,531) | (7,470) | (6,112) | (6,242) |
| Adjusted funds from oper (AFFO) | 9,395 | 18,636 | 18,991 | 13,914 | 12,239 | 18,821 | 19,602 | 14,407 | 60,936 | 65,069 | 67,558 |
| AFFO per share | \$0.72 | \$1.43 | \$1.46 | \$1.07 | \$0.94 | \$1.45 | \$1.51 | \$1.11 | \$4.69 | \$5.01 | \$5.20 |
| Distribution | 3,897 | 3,897 | 3,897 | 3,897 | 3,897 | 3,897 | 3,897 | 3,897 | 15,589 | 15,589 | 15,589 |
| Distribution per share | \$0.300 | \$0.300 | \$0.300 | \$0.300 | \$0.300 | \$0.300 | \$0.300 | \$0.300 | \$1.200 | \$1.200 | \$1.200 |
| Payout ratio (%) | 41.5% | 20.9% | 20.5% | 28.0% | 31.8% | 20.7% | 19.9% | 27.1% | 25.6% | 24.0% | 23.1% |
| T12M dividend/FCF ratio (%) | 24.6% | 18.6% | 17.9% | 18.2% | 18.7% | 18.8% | 18.7% | 18.7% | 18.2% | 18.7% | 17.0% |
| Shares (units) out (basic, 000) | 12,991 | 12,991 | 12,991 | 12,991 | 12,991 | 12,991 | 12,991 | 12,991 | 12,991 | 12,991 | 12,991 |
| Shares (units) out (fd, 000) | 12,991 | 12,991 | 12,991 | 12,991 | 12,991 | 12,991 | 12,991 | 12,991 | 12,991 | 12,991 | 12,991 |

Source: K-Bro Linen financial filings; Leede Financial

Shifting back to Canadian operations, FQ126 healthcare-based laundry-processing revenue of \$51.0M was essentially at FQ425 healthcare revenue of \$51.5M & indeed quarterly revenue for this segment – for which K-Bro has seminal long-term contracts in place in SK with 3S Health, in AB with the Alberta Health Service & in BC with the Fraser Health Authority & the Vancouver Coastal Health Authority – has been remarkably stable at least since FQ424, never dipping below \$49.0M in any specific quarter since then. Quarterly Canadian hospitality revenue is more seasonal as indicated above, with FQ126 hospitality revenue of \$18.4M, essentially flat as compared to \$18.6M in FQ425 but well below \$23.2M in FQ325 as expected.

Our model assumes that seasonal hospitality strength is on the horizon for FQ226-to-FQ326 & thus expected to positively augment EBITDA/AFFO & payout ratio in those two pending quarters. UK hospitality seasonality is more dramatic as expected, with FQ126 UK hospitality revenue of \$36.0M experiencing sequential softness in comparison to FQ425 UK hospitality revenue of \$42.6M & even more dramatic softness as compared to seasonally strong FQ325 UK hospitality revenue of \$50.4M. Our model will continue to assume quarterly fluctuations of this relative magnitude in future periods.

Working capital surplus & magnitude of maintenance capex have dampening effect on F126 AFFO, but not to a degree that measurably impacts risk to sustainably-safe dividend policy. K-Bro's FQ126 AFFO was \$0.72/shr & thus well above actual dividend payout of \$0.30/shr as it is in virtually all financial periods since we initiated coverage on the stock back in late F2013, thus payout ratio that in FQ126 was 41.5% is expected to be low, sustaining its stabilizing force in our KBL investment thesis. Consistent with our recurring theme on FQ126 results commentary, FQ126 AFFO was sequentially down from \$1.04/shr in FQ425 & more substantially down from \$1.51/shr in FQ325 but by a seasonal magnitude that our model already assumed.

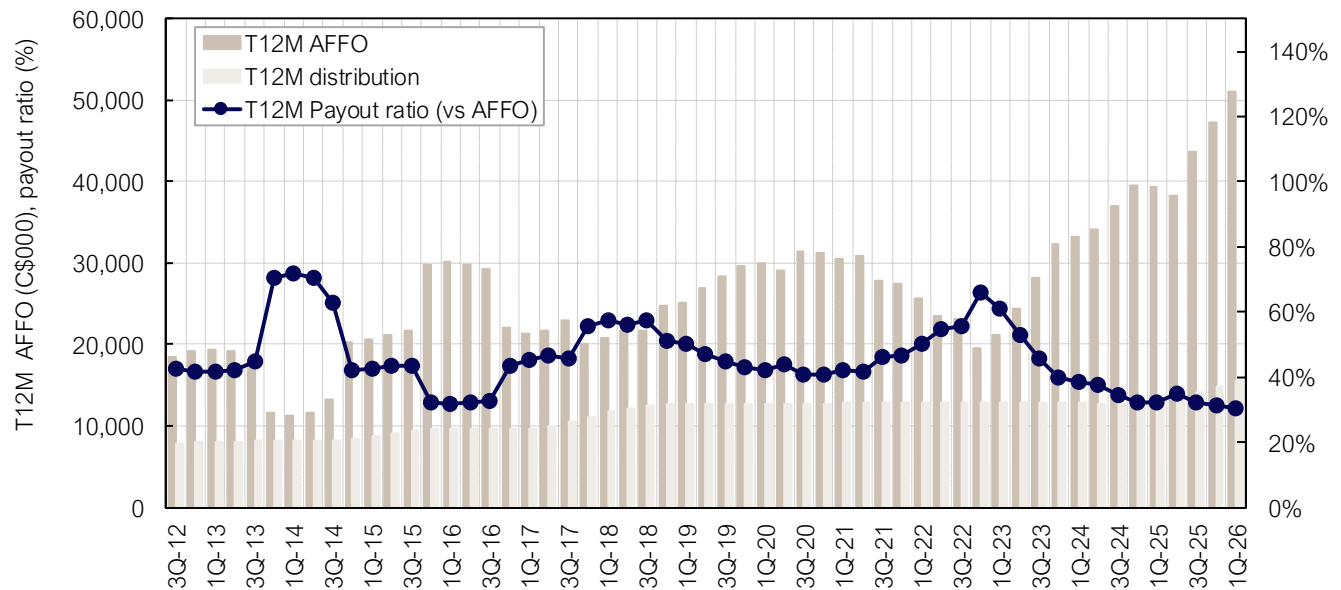
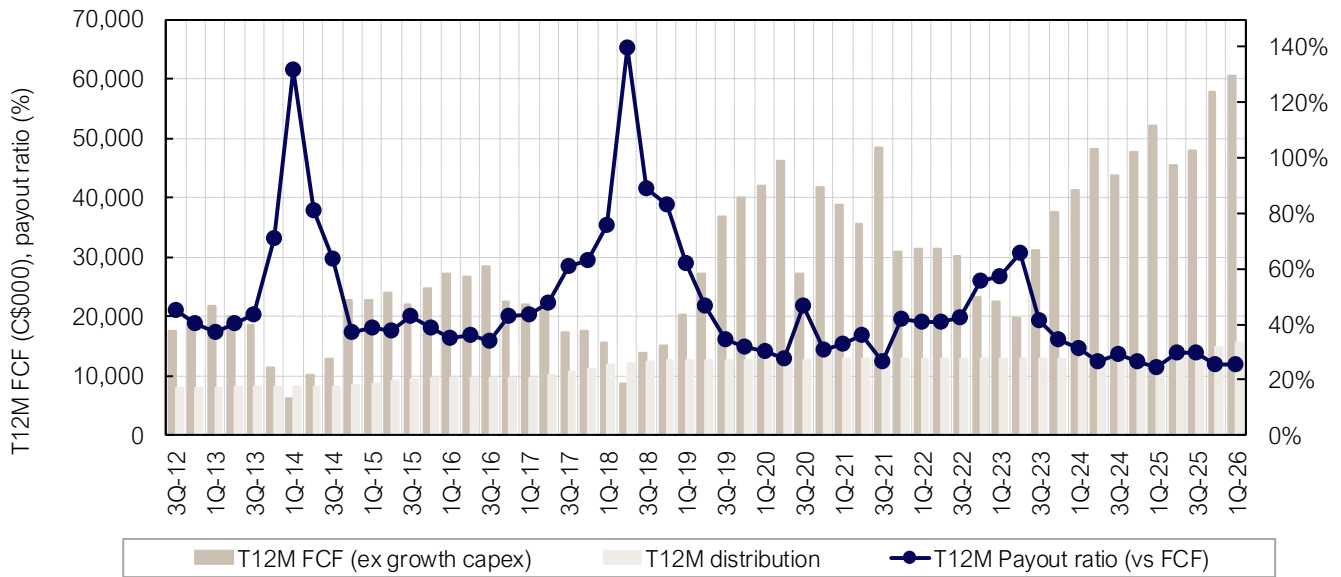
Exhibit 4. F2026E-to-F2028E Quarterly Income Statement Forecasts for K-Bro Linen

| Year-end December 31 (C\$000, exc share-based data) ¹ | 1Q-26 | 2Q-26E | 3Q-26E | 4Q-26E | 1Q-27E | 2Q-27E | 3Q-27E | 4Q-27E | 2026E | 2027E | 2028E |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Revenue (by geography & category) | | | | | | | | | | | |
| Healthcare revenue, Canada | 50,985 | 50,663 | 50,519 | 52,539 | 52,005 | 51,677 | 51,529 | 53,590 | 204,706 | 208,800 | 212,976 |
| Hospitality revenue, Canada | 18,423 | 20,309 | 23,895 | 19,174 | 18,976 | 20,918 | 24,612 | 19,750 | 81,801 | 84,255 | 86,783 |
| Healthcare revenue, UK | 33,722 | 27,488 | 33,528 | 34,762 | 34,396 | 28,037 | 34,199 | 35,457 | 129,500 | 132,090 | 134,731 |
| Hospitality revenue, UK | 35,979 | 51,601 | 51,357 | 43,432 | 36,699 | 52,633 | 52,384 | 44,300 | 182,369 | 186,016 | 189,736 |
| Revenue | 139,109 | 150,061 | 159,299 | 149,907 | 142,075 | 153,265 | 162,724 | 153,097 | 598,375 | 611,161 | 624,227 |
| Adjusted EBITDA, Canada | 13,917 | 13,582 | 16,743 | 11,783 | 10,425 | 13,375 | 17,132 | 12,118 | 56,024 | 53,050 | 61,978 |
| EBITDA margin, Canada (%) | 20.1% | 19.1% | 22.5% | 16.4% | 14.7% | 19.1% | 22.5% | 16.5% | 19.6% | 18.1% | 20.7% |
| Adjusted EBITDA, UK | 8,638 | 15,784 | 17,847 | 11,469 | 10,572 | 16,626 | 18,728 | 12,141 | 53,738 | 58,067 | 48,917 |
| EBITDA margin, UK (%) | 12.4% | 20.0% | 21.0% | 14.7% | 14.9% | 20.6% | 21.6% | 15.2% | 17.2% | 18.3% | 15.1% |
| ¹ Geography-specific EBITDA excludes corporate costs that are assimilated into K-Bro's consolidated EBITDA & our forecasts | | | | | | | | | | | |
| Revenue | | | | | | | | | | | |
| Healthcare revenue, Canada | 50,985 | 50,663 | 50,519 | 52,539 | 52,005 | 51,677 | 51,529 | 53,590 | 204,706 | 208,800 | 212,976 |
| Hospitality revenue, Canada | 18,423 | 20,309 | 23,895 | 19,174 | 18,976 | 20,918 | 24,612 | 19,750 | 81,801 | 84,255 | 86,783 |
| International revenue (Fishers Topco; Shortridge, STAR Mayan) | 69,701 | 79,089 | 84,885 | 78,193 | 71,095 | 80,671 | 86,583 | 79,757 | 311,868 | 318,106 | 324,468 |
| Revenue | 139,109 | 150,061 | 159,299 | 149,907 | 142,075 | 153,265 | 162,724 | 153,097 | 598,375 | 611,161 | 624,227 |
| YoY growth, Cdn healthcare revenue | 4.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.5% | 2.0% | 2.0% |
| YoY growth, Cdn hospitality revenue | 4.9% | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% | 3.0% | 3.4% | 3.0% | 3.0% |
| YoY growth, UK healthcare revenue | NA | 233.9% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 36.8% | 2.0% | 2.0% |
| YoY growth, UK hospitality revenue | 57.7% | 45.5% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 2.0% | 18.1% | 2.1% | 2.1% |
| Operating expenses | | | | | | | | | | | |
| Salaries & benefits | 55,351 | 52,618 | 56,009 | 55,976 | 52,342 | 53,741 | 57,137 | 57,099 | 219,955 | 220,319 | 224,736 |
| Linen | 13,877 | 14,510 | 15,566 | 15,097 | 14,288 | 14,819 | 15,823 | 15,344 | 59,050 | 60,273 | 61,257 |
| Utilities | 9,202 | 10,830 | 11,653 | 11,271 | 10,632 | 11,061 | 11,827 | 11,438 | 42,957 | 44,957 | 45,616 |
| Delivery | 16,505 | 21,465 | 22,995 | 22,268 | 21,397 | 21,917 | 23,406 | 22,663 | 83,234 | 89,383 | 90,969 |
| Occupancy costs | 3,168 | 4,375 | 4,821 | 4,561 | 4,653 | 4,465 | 4,845 | 4,582 | 16,925 | 18,544 | 18,629 |
| Materials and supplies | 7,462 | 6,130 | 6,672 | 6,212 | 6,514 | 6,259 | 6,737 | 6,269 | 26,475 | 25,779 | 26,024 |
| Repairs and maintenance | 5,917 | 4,339 | 4,741 | 4,815 | 5,008 | 4,433 | 4,769 | 4,847 | 19,812 | 19,057 | 19,173 |
| Corporate G&A costs, other | 5,072 | 6,427 | 6,784 | 6,455 | 6,244 | 6,569 | 6,935 | 6,596 | 24,738 | 26,345 | 26,926 |
| EBITDA | 22,555 | 29,366 | 30,057 | 23,252 | 20,997 | 30,001 | 31,245 | 24,259 | 105,229 | 106,503 | 110,895 |
| EBITDA margin (%) | 16.2% | 19.6% | 18.9% | 15.5% | 14.8% | 19.6% | 19.2% | 15.8% | 17.6% | 17.4% | 17.8% |
| Debt/EBITDA run-rate | 2.5x | 1.9x | 1.8x | 2.4x | 2.6x | 1.8x | 1.7x | 2.2x | 2.1x | 2.0x | NA |
| EBITDA/interest | 5.1x | 6.6x | 6.8x | 5.3x | 4.8x | 7.0x | 7.4x | 5.8x | 5.9x | 6.2x | NA |
| Non-operating expenses | | | | | | | | | | | |
| Depreciation, tangible assets | 12,161 | 11,469 | 11,143 | 10,833 | 10,537 | 10,249 | 9,968 | 9,701 | 45,606 | 40,455 | 36,773 |
| Amortization, intangible assets | 2,795 | 2,496 | 2,394 | 2,296 | 2,203 | 2,113 | 2,028 | 1,945 | 9,981 | 8,289 | 7,027 |
| Interest expense (income) | 4,437 | 4,474 | 4,427 | 4,380 | 4,334 | 4,287 | 4,240 | 4,193 | 17,718 | 17,054 | 16,305 |
| Annualized interest rate (%) | 7.9% | 8.0% | 8.0% | 8.0% | 8.0% | 8.0% | 8.0% | 8.0% | 8.1% | 8.1% | 8.1% |
| Loss (gain) on asset disposal | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Other expenses, accretion expense | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Total expenses unrelated to operations | 19,393 | 18,439 | 17,964 | 17,509 | 17,074 | 16,649 | 16,235 | 15,840 | 73,305 | 65,797 | 60,105 |
| Earnings before taxes (EBT) | 3,162 | 10,927 | 12,093 | 5,742 | 3,924 | 13,352 | 15,010 | 8,420 | 31,924 | 40,705 | 50,791 |
| EBT margin (%) | 2.3% | 7.3% | 7.6% | 3.8% | 2.8% | 8.7% | 9.2% | 5.5% | 5.3% | 6.7% | 8.1% |
| Tax expense (recovery) | 199 | 2,732 | 3,023 | 1,436 | 981 | 3,338 | 3,752 | 2,105 | 7,390 | 10,176 | 12,698 |
| Tax rate (%) | 6.3% | 25.0% | 25.0% | 25.0% | 25.0% | 25.0% | 25.0% | 25.0% | 23.1% | 25.0% | 25.0% |
| Net income | 2,963 | 8,195 | 9,070 | 4,307 | 2,943 | 10,014 | 11,257 | 6,315 | 24,535 | 30,529 | 38,093 |
| Net income (adjusted) | 2,963 | 8,195 | 9,070 | 4,307 | 2,943 | 10,014 | 11,257 | 6,315 | 24,535 | 30,529 | 38,093 |
| Net margin (%) | 2.1% | 5.5% | 5.7% | 2.9% | 2.1% | 6.5% | 6.9% | 4.1% | 4.1% | 5.0% | 6.1% |
| EPS (consolidated operations) | \$0.23 | \$0.63 | \$0.70 | \$0.33 | \$0.23 | \$0.77 | \$0.87 | \$0.49 | \$1.89 | \$2.35 | \$2.93 |
| EPS (adjusted) | \$0.23 | \$0.63 | \$0.70 | \$0.33 | \$0.23 | \$0.77 | \$0.87 | \$0.49 | \$1.89 | \$2.35 | \$2.93 |
| Shares (units) outstanding (basic, 000) | 12,991 | 12,991 | 12,991 | 12,991 | 12,991 | 12,991 | 12,991 | 12,991 | 12,991 | 12,991 | 12,991 |
| Shares (units) outstanding (fd, 000) | 12,991 | 12,991 | 12,991 | 12,991 | 12,991 | 12,991 | 12,991 | 12,991 | 12,991 | 12,991 | 12,991 |
| Distribution | 3,897 | 3,897 | 3,897 | 3,897 | 3,897 | 3,897 | 3,897 | 3,897 | 15,589 | 15,589 | 15,589 |
| Distribution per share | \$0.30 | \$0.30 | \$0.30 | \$0.30 | \$0.30 | \$0.30 | \$0.30 | \$0.30 | \$1.20 | \$1.20 | \$1.20 |

Source: Historic financial data – K-Bro Linen; Projections - Leede Financial

FQ126 pure operating cash flow was \$17.3M (\$1.34/shr) as compared to \$20.9M (\$1.61/shr) in FQ425 & to \$9.8M (\$0.93/shr) in FQ125. FQ126 consolidated working capital-adjusted cash flow was much higher at \$22.3M, influenced by a sizable receivables surplus in the period & a cumulative surplus of \$4.9M in the period, as compared to \$21.7M in FQ425 when working capital surplus was more modest at \$0.8M. Maintenance capex spending in the quarter of \$2.9M was higher than \$1.2M in FQ425 & \$0.7M in FQ125 but presumably related to implementing cost synergies with Stellar Mayan that K-Bro predicted could be achievable within five-to-six quarters post-transaction.

Exhibit 5. K-Bro's Free Cash Flow & Quarterly AFFO were Again Sufficient to Adequately Fund Dividend Policy, with an Attractive Payout Ratio, FQ312-FQ126

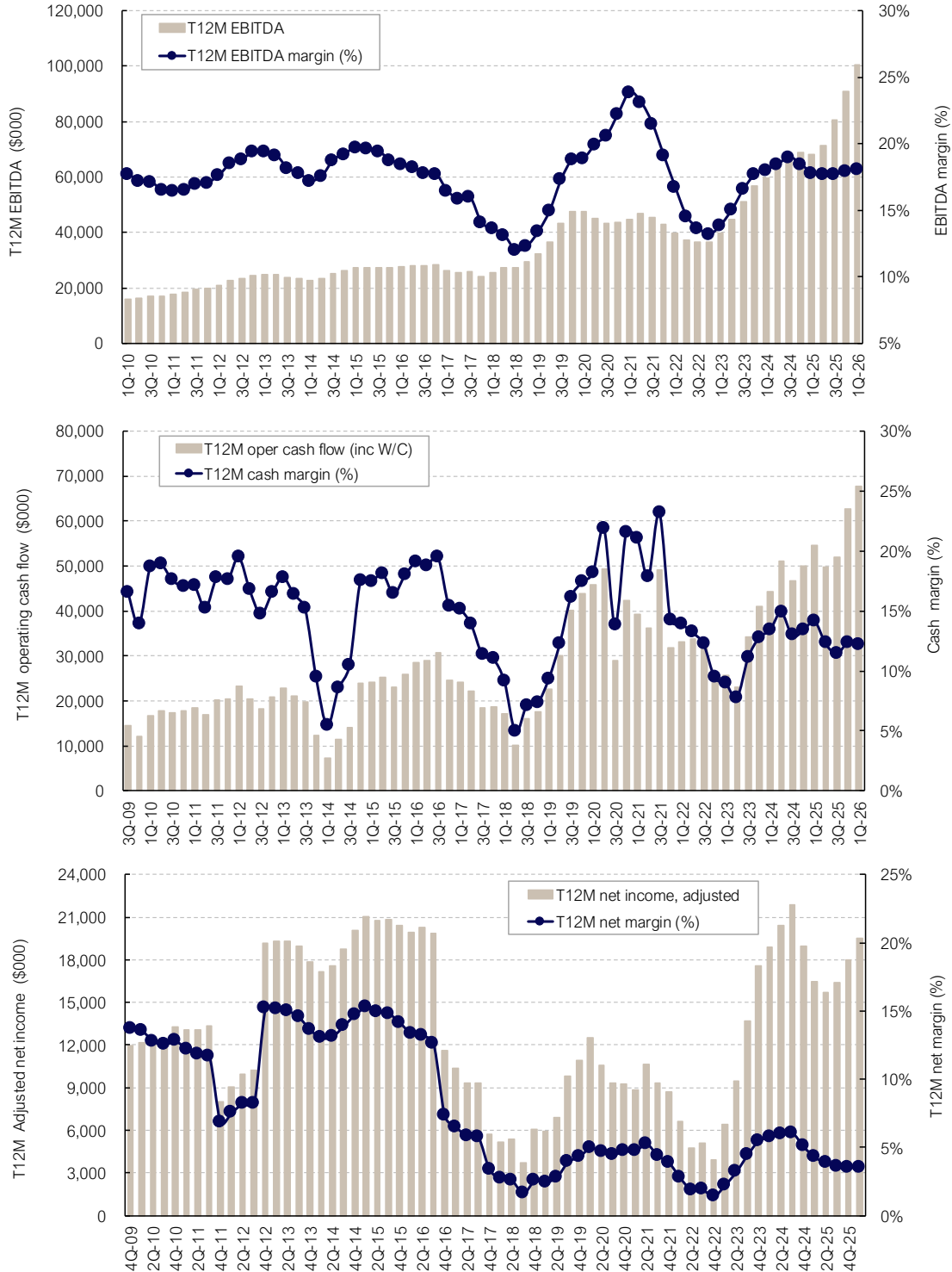


Source: Historic Data – K-Bro Linen; Forecasts/Estimates - Leede Financial

Debt-based financial ratios confer minimal financial risk on a go-forward basis. Shifting to balance sheet metrics, K-Bro exited the quarter with \$30.8M in cash (we recall when the firm would conventionally exit financial periods with virtually no cash, specifically during FQ415-to-FQ117 despite strong operating cash flow in the respective periods, deploying capital into tangible asset acquisitions & of course, dividend payout) & total debt of \$226.0M. Accordingly, the firm's debt-to-FQ126 EBITDA run-

rate ratio was 2.5x & its FQ126 EBITDA-to-interest coverage ratio was 5.1x, both of which were well into safe territory by our personal definition of safe territory though we would endorse reduction in debt burden with operating cash in future periods, at least in periods where discretionary capital is not deployed for acquisitive growth.

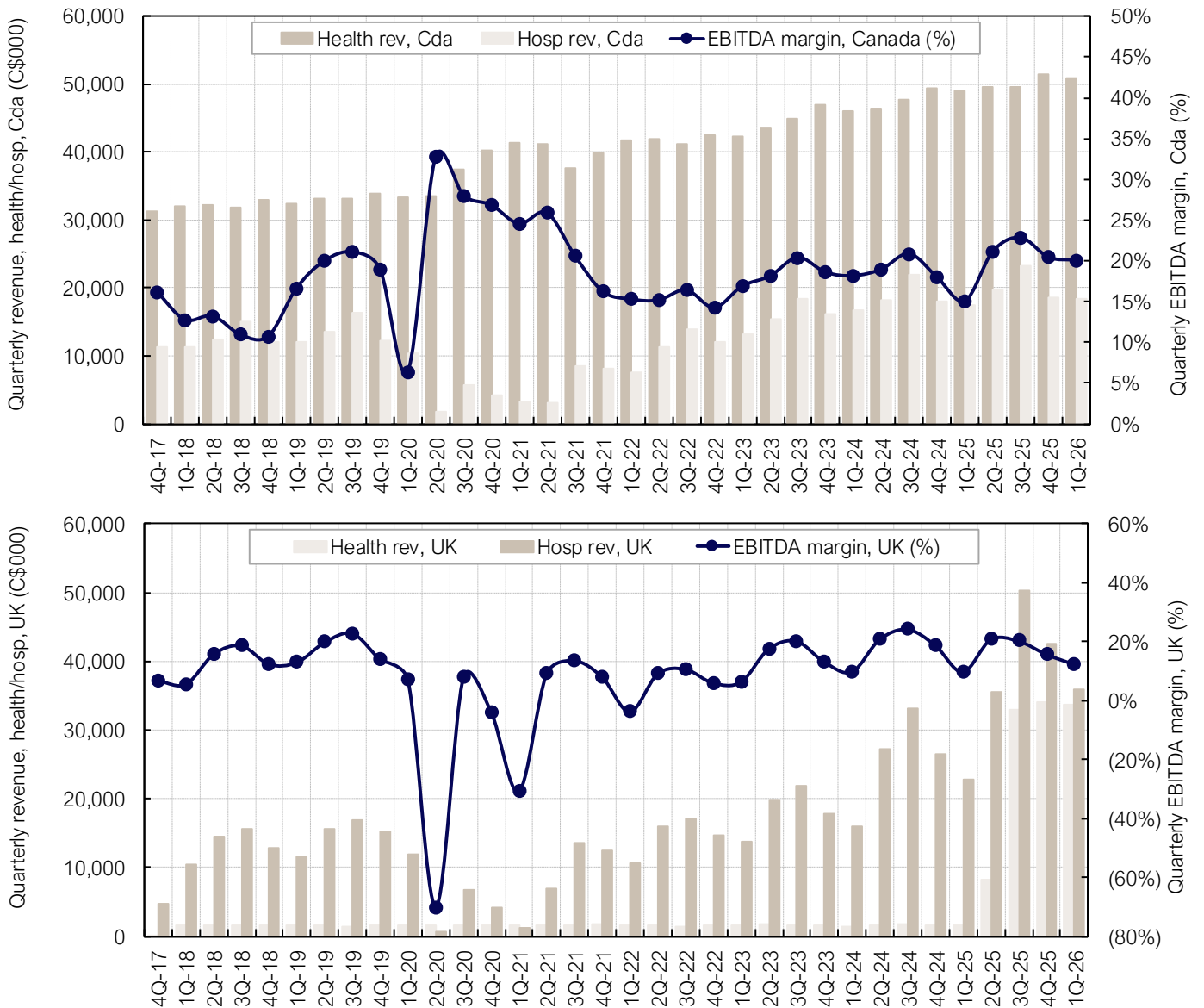
Exhibit 6. Historic T12M EBITDA, Cash Flow & Net Income Data for K-Bro, FQ110-FQ126. Margin Stability While Driving EBITDA & Cash Flow Growth In Recent Periods, Including In Seasonally Soft Hospitality Periods Like FQ126



Source: Historic Data – K-Bro Linen; Forecasts/Estimates - Leede Financial

Summary & valuation. So in conclusion, K-Bro's FQ126 financial data were directionally in line with our expectations, though with modest out-performance on EBITDA margin for both Canadian & UK operations at least by the standards of K-Bro's FQ1 history & we remain positive about the impact of the UK-based Stellar Mayan acquisition as a way to diversify the exposure that UK operations had on hospitality-dependent laundry processing volumes while augmenting consolidated EBITDA/margin in the process. As in virtually all trailing quarters for the firm, conference call commentary focused on energy/utility costs as a driver for EBITDA margin stability, a reality on which we have no new insights other than to acknowledge that industrial operations at a scale that K-Bro operates will rely on sources of energy to drive operations & K-Bro's narrative has always been more focused on costs than most other EBITDA-positive firms in our coverage universe where revenue growth is a more seminal value driver.

Exhibit 7. Historic Quarterly Revenue/EBITDA Margin for K-Bro Linen, Stratified By Division & Geography, FQ417-FQ126

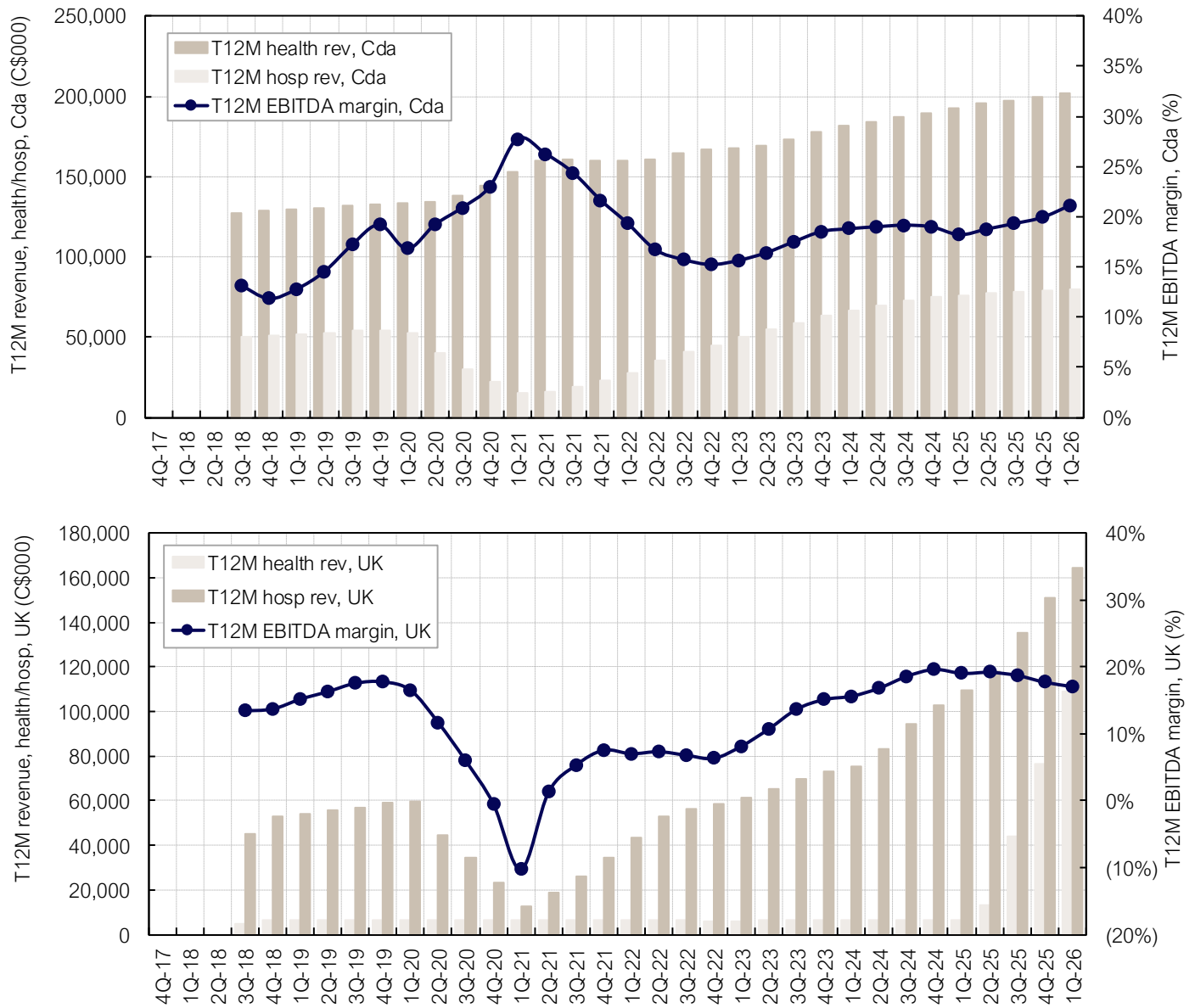


Source: Historical Data – K-Bro Linen; Forecasts/Estimates – Leede Financial

Regardless, we led with the conclusion at the start of our K-Bro FQ126 commentary & we are herein maintaining that conclusion that finds us maintaining our Buy rating & one-year PT of \$49.00 on KBL, with our valuation based on multiples of our F2027 AFFO-EPS-EBITDA forecasts of \$5.01/shr-\$2.35/shr-\$106.5M as shown in Exhibits 1 & 2. Our EV calculation incorporates FQ126 balance sheet data (cash of \$30.9M, total debt of \$226.0M) & S/O of 13.0M. The firm's dividend policy (\$0.30/shr

payout per quarter) still incurs minimal-to-no financial risk based on quarterly operating cash flow run-rate even if we use a seasonally soft FQ1 period as the basis for that run-rate. At current price levels, our PT corresponds to total return (including dividend yield of 3.1%) of 38.7%.

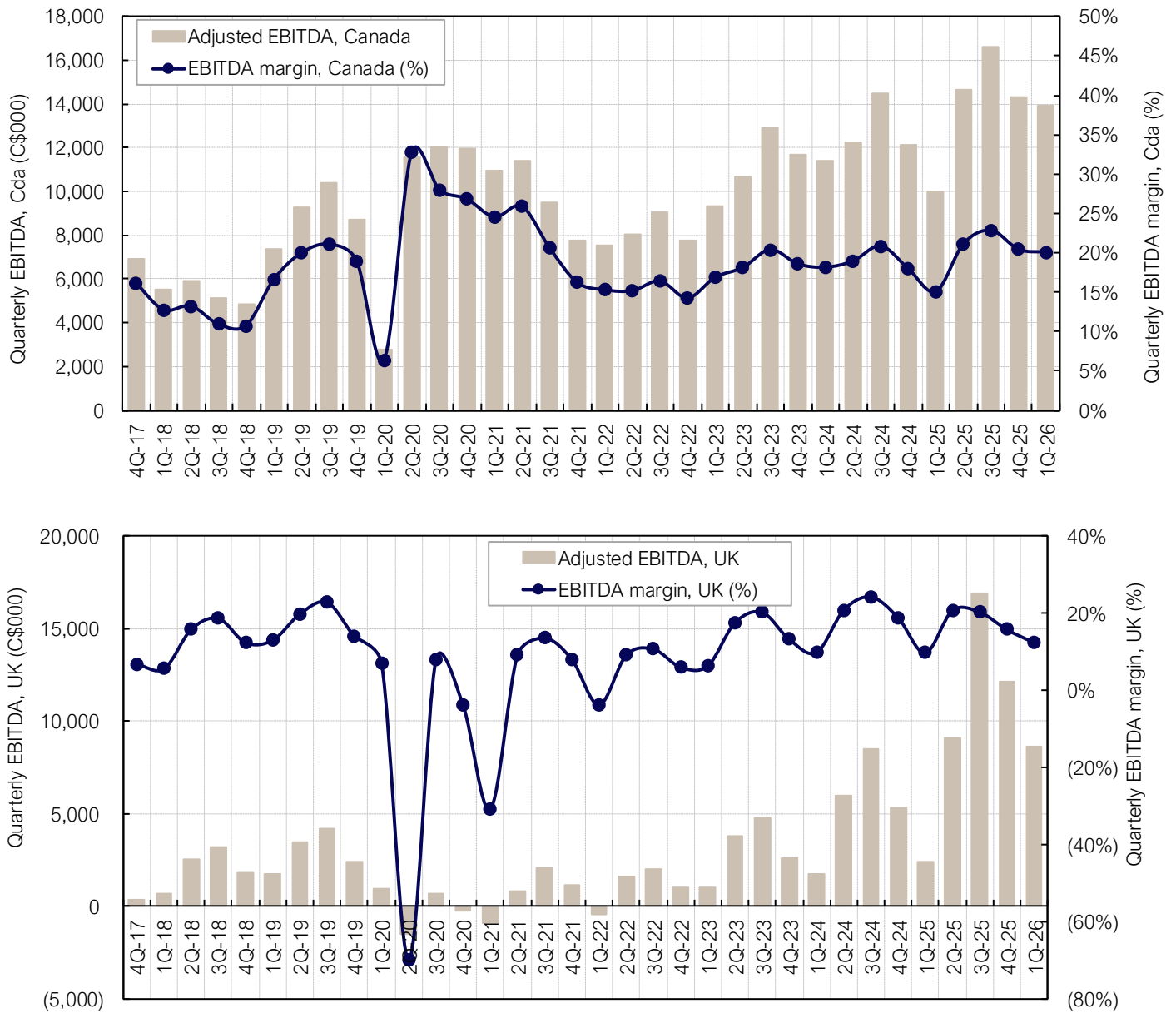
Exhibit 8. Historic T12M Revenue-EBITDA-Margin Data for K-Bro Linen, Stratified By Division & Geography, FQ318-FQ126



Source: Historical Data – K-Bro Linen; Forecasts/Estimates – Leede Financial

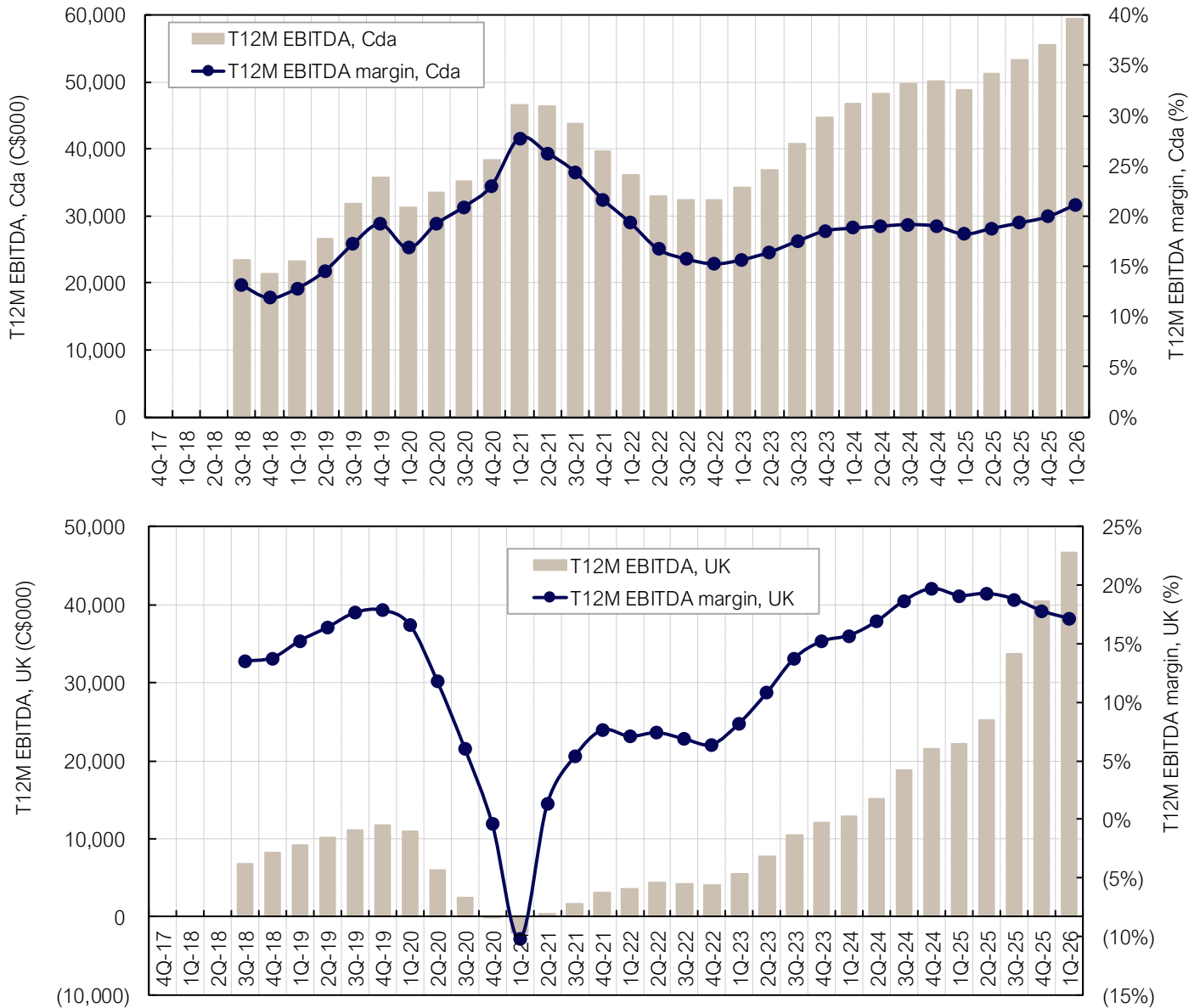
On the milestone watch, we expect K-Bro to focus in the medium-term on continuing to explore cost synergies within its UK operations that until K-Bro acquired them had obviously operated as independent entities. Accordingly & at a minimum, administrative cost synergies should be readily identifiable & achievable over the twelve-to-eighteen month time horizon that K-Bro set for itself at the time of the Stellar Mayan acquisition last year. We assume that the firm will constitutively explore new RFP opportunities to grow revenue/EBITDA organically at its existing laundry-processing facilities in AB-BC-ON-SK without incurring supplemental changes to capital structure. Longer-term, we believe that K-Bro can still grow acquisitively in both domestic & international markets, notably into Canadian provinces where current capacity is limited (Atlantic provinces specifically) but also in regional markets in the UK now that the firm has a firm footprint in that geography. Our model does not overtly assume timing or magnitude of any future transactions.

Exhibit 9. Historic Quarterly EBITDA/Margin Data for K-Bro Linen, Stratified By Geography, FQ417-FQ126



Source: Historical Data – K-Bro Linen; Forecasts/Estimates – Leede Financial

Exhibit 10. Historic T12M EBITDA/Margin Data for K-Bro Linen, Stratified By Geography, FQ318-FQ126



Source: Historical Data – K-Bro Linen; Forecasts/Estimates – Leede Financial

Exhibit 11. Comparable Companies for K-Bro Linen

| Company | Curr. | Sym | Shares (M) | Share Price 5-May | Mkt Cap (\$M) | Ent. Value (\$M) | EV/EBITDA | | | Price/Earnings | | | Description |
|---|------------|------------|---------------|-------------------------|---------------------|------------------------|--------------|--------------|--------------|----------------|--------------|--------------|---|
| | | | | | | | (T12) | (FY1) | (FY2) | (T12) | (FY1) | (FY2) | |
| Linen/laundry services peers | | | | | | | | | | | | | |
| Cintas | USD | CTAS | 400.1 | \$169.25 | \$92,207 | \$95,575 | 31.5x | 30.6x | 28.2x | 35.2x | 34.6x | 31.1x | OH-based uniform supply firm, pro-vides healthcare uniform rentals |
| Aramark | USD | ARMK | 262.8 | \$45.26 | \$16,199 | \$24,142 | 17.1x | 15.6x | 14.2x | 37.6x | 20.4x | 17.3x | PA-based services firm. Healthcare division includes uniform services |
| Eco Lab | USD | ECL | 282.4 | \$257.65 | \$99,086 | \$109,985 | NA | NA | 22.9x | 34.6x | 30.7x | 26.8x | Diversified services, with hospitality and healthcare laundry operations |
| Sodexo | EUR | SW | 147.5 | € 43.38 | \$10,184 | \$16,891 | 11.9x | 13.0x | 11.6x | 14.1x | 12.6x | 10.9x | French service-solutions company with laundry operations in Canada |
| Average | | | | | | | 20.2x | 19.7x | 19.2x | 30.4x | 24.6x | 21.5x | |
| Profitable Canadian healthcare firms | | | | | | | | | | | | | |
| Aurinia Pharmaceuticals | USD | AUPH | 129.9 | \$16.04 | \$2,084 | \$1,755 | 13.9x | 11.0x | 9.1x | 7.4x | 20.3x | 15.3x | AB-based immune therapy developer. FDA-approved voclosporin for lupus |
| Bausch Health | CAD | BHC | 373.5 | \$7.70 | \$2,876 | \$22,585 | 6.3x | 5.9x | 6.0x | NA | 1.7x | 1.8x | QC-based specialty pharma firm, formerly Valeant/Biovail |
| Biosyent | CAD | RX | 11.6 | \$14.60 | \$170 | \$142 | 11.7x | 9.2x | 7.8x | 18.2x | 15.5x | 13.0x | ON-based specialty pharma firm, sells acute care Rx therapies into hospital mkt |
| CareRx | CAD | CRRX | 62.9 | \$3.66 | \$230 | \$294 | 9.7x | 8.0x | 7.1x | 8.8x | 22.0x | 12.0x | Long-term care Rx services provider |
| Chartwell REIT | CAD | CSH.UN | 324.0 | \$22.27 | \$7,216 | \$10,094 | 25.1x | 20.0x | 18.2x | NA | NA | 58.6x | ON-based nursing home & retirement residence operator |
| Cipher Pharmaceuticals ¹ | CAD | CPH | 25.4 | \$18.11 | \$460 | \$336 | 13.9x | 11.8x | 9.5x | 16.9x | 24.3x | 19.1x | ON-based specialty pharma firm; lead drug is isotretinoin drug Absorica |
| Covalon Technologies | CAD | COV | 27.6 | \$1.84 | \$51 | \$35 | 24.3x | 10.1x | 6.5x | 51.6x | 26.3x | 13.1x | ON-based medical technology developer, focused on wound care |
| DRI Healthcare Trust | CAD | DHT | 55.0 | \$16.16 | \$889 | \$1,093 | 7.2x | 6.8x | 6.6x | NA | 7.5x | 7.1x | ON-based royalty revenue consolidator, ascribed to marketed Rx therapies |
| Extencare REIT | CAD | EXE | 94.8 | \$30.20 | \$2,864 | \$2,846 | 16.2x | 12.1x | 10.7x | 26.7x | 24.8x | 21.2x | ON-based nursing home, homecare, and rehab therapy provider |
| Healwell AI | CAD | AIDX | 295.6 | \$0.95 | \$281 | \$348 | NA | 42.0x | 21.3x | NA | NA | NA | ON-based healthcare AI software developer & marketer |
| HLS Therapeutics | CAD | HLS | 31.3 | \$4.71 | \$147 | \$146 | 9.0x | 7.2x | 6.1x | NA | NA | NA | ON-based specialty pharma firm, lead drugs are Vascepa & Clozaril |
| Jamieson Wellness | CAD | JWEL | 41.5 | \$33.65 | \$1,396 | \$1,844 | 11.7x | 10.4x | 9.3x | 22.5x | 15.9x | 13.6x | ON-based vitamin & nutritional supplement distributor/manufacture |
| Kneat.com | CAD | KSI | 96.1 | \$4.62 | \$444 | \$424 | NA | 24.4x | 16.5x | NA | NA | NA | ON-based software developer for pharma services management |
| Knight Therapeutics | CAD | GUD | 98.3 | \$7.55 | \$742 | \$705 | 10.4x | 9.3x | 8.7x | NA | 46.5x | 29.8x | QC-based specialty pharma firm, major operations in S.America |
| Medexus Pharmaceuticals ¹ | CAD | MDP | 32.0 | \$3.90 | \$125 | \$102 | 7.5x | 6.4x | 4.6x | NA | NA | 12.2x | ON-based specialty pharma firm, new focus on oncology/immunology with Grafapex |
| Medical Facilities ¹ | CAD | DR | 17.6 | \$17.10 | \$300 | \$300 | 4.8x | 5.2x | 5.2x | 30.1x | 8.4x | 25.5x | Physician-owned surgical hospital operator in SD-OK-AR-CA |
| Vital Infrastructure | CAD | VITL.UN | 250.0 | \$5.54 | \$1,385 | \$2,661 | 10.3x | 12.4x | 12.6x | NA | NA | NA | ON-based owner/operator of health-care properties (LifeLabs is major tenant) |
| Savaria | CAD | SIS | 71.9 | \$29.55 | \$2,124 | \$2,311 | 12.7x | 11.3x | 10.4x | 30.7x | 21.3x | 18.8x | ON-based marketer of patient mobility assist devices |
| Sienna Senior | CAD | SIA | 106.0 | \$23.75 | \$2,518 | \$3,824 | NA | 19.1x | 17.3x | 48.9x | 39.6x | 34.4x | Canada-based nursing care provider |
| Viemed Healthcare | USD | VMS | 38.5 | \$9.70 | \$373 | \$374 | 7.6x | NA | NA | 25.1x | NA | 15.6x | US-based home respiratory care |
| Vitalhub | CAD | VHI | 63.3 | \$7.99 | \$505 | \$389 | 17.1x | 11.4x | 9.5x | NA | 31.7x | 25.3x | ON-based software developer, targeting hospital logistics/records management |
| WELL Health | CAD | WELL | 255.5 | \$4.34 | \$1,109 | \$1,862 | 9.2x | 10.4x | 9.4x | NA | 15.7x | 11.4x | BC-based virtual healthcare services |
| Average | | | | | \$1,286 | | 12.0x | 12.6x | 10.1x | 26.1x | 21.4x | 19.3x | |
| K-Bro Linen | CAD | KBL | 13.0 | \$39.00 | \$507 | \$753 | NA | 6.9x | 6.6x | 25.6x | 19.0x | 15.6x | Laundry/linen services for health & hospitality markets in Cda/UK |

¹ Shares trade on TSX in C\$, market capitalization & EV converted to US\$ using current US\$:C\$ exchange rate of 1.37x

Source: Leede Financial, Consensus Data - Refinitiv

Disclosures 4

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| | |
|------------------------|---|
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| Speculative Buy | The security is considered a BUY but carries an above-average level of risk. |
| Hold | The security represents fair value and no material appreciation is expected over the next 12-month time horizon. |
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| RECOMMENDATION | NO. OF COMPANIES | % |
|-----------------|------------------|-----|
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| Speculative Buy | 5 | 32% |
| Hold | 1 | 6% |
| Sell | - | - |
| Tender | 1 | 6% |
| Under Review | - | - |

Historical Target Price

