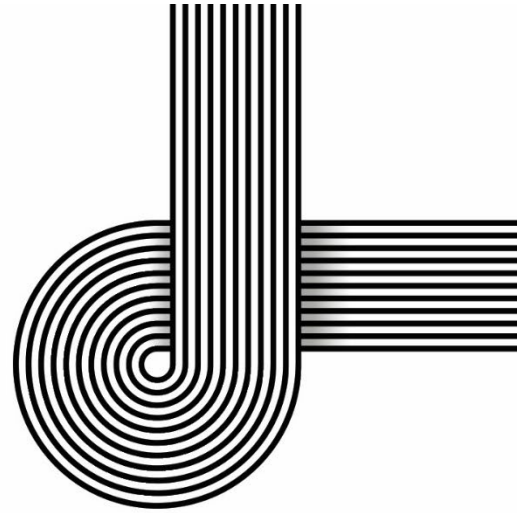


K·BRO



# MANAGEMENT'S DISCUSSION & ANALYSIS

Q3, 2023



# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following Management's Discussion and Analysis ("MD&A") is supplemental to, and should be read in conjunction with, the unaudited interim Condensed Consolidated Financial Statements of K-Bro Linen Inc. ("the Corporation") for the nine months ended September 30, 2023 and the audited Consolidated Financial Statements, as well as the MD&A, for the year ended December 31, 2022. The Corporation and its wholly-owned subsidiaries, including K-Bro Linen Systems Inc. and Fishers Topco Ltd., are collectively referred to as "K-Bro" in this MD&A.

Management is responsible for the information contained in this MD&A and its consistency with information presented to the Audit Committee and Board of Directors. All information in this document has been reviewed and approved by the Audit Committee and Board of Directors. This review was performed by management with information available as of November 9, 2023.

In the interest of providing current holders ("Shareholders") of common shares of K-Bro Linen Inc. ("Common Shares") and potential investors with information regarding current results and future prospects, our public communications often include written or verbal forward-looking statements. Forward-looking statements are disclosures regarding possible events, conditions, or results of operations that are based on assumptions about future economic conditions and courses of action, and include future-oriented financial information.

This MD&A 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 MD&A. These risks and uncertainties include, among other things: (i) risks associated with acquisitions, including (a) the possibility of undisclosed material liabilities, disputes or contingencies, (b) challenges or delays in achieving synergy and integration targets, (c) the diversion of management's time and focus from other business concerns and (d) the use of resources that may be needed in other parts of our business; (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 and the risks associated with maintaining short term contracts; (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 and terms 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) interest and 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 MD&A 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 MD&A may be considered "financial outlook" for purposes of applicable securities laws, and such financial outlook may not be appropriate for purposes other than this MD&A. Forward looking information included in this MD&A 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 MD&A is qualified by these cautionary statements. Forward-looking information in this MD&A 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 MD&A 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.

## TABLE OF CONTENTS

Introduction	2	Liquidity and Capital Resources	15	Terminology	20
Selected Quarterly Financial Info	4	Dividends	17	Recent Accounting Pronouncements	21
Strategy	5	Distributable Cash Flow	18	Critical Risks and Uncertainties	22
Summary of Results and Key Events	5	Outstanding Common Shares	19	Controls and Procedures	22
Outlook	9	Related Party Transaction	19		
Results of Operations	10	Critical Accounting Estimates	19		

## INTRODUCTION

### Core Business

The Corporation 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 ten 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 Topco Ltd. ("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 four UK sites located in Perth, Newcastle, Livingston and Coatbridge.

### Industry and Market

In Canada, K-Bro provides laundry and linen services to healthcare, hospitality and other commercial customers. Typical services offered by K-Bro include the processing, management and distribution of general and operating room linens, including sheets, blankets, towels, surgical gowns and drapes and other linen. Other types of processors in K-Bro's industry include independent privately-owned facilities (i.e., typically small, single facility companies), public sector central laundries and public and private sector on premise laundries (known as "OPLs"). Participants in other sectors of the Canadian laundry and linen services industry, such as uniform rental companies (which own and launder uniforms worn by their customers' employees) typically do not offer services that significantly overlap with those offered by K-Bro.

In the UK, Fishers provides laundry and linen services to healthcare, hospitality and other commercial customers. Typical services offered by Fishers include the processing, management and distribution of general linen, workwear and clean room garment services. Other types of processors in Fishers' industry in the UK include publicly traded companies, independent privately-owned facilities (i.e., typically, small single facility companies), public sector central laundries and public and private sector OPLs.

Our partnerships with healthcare institutions and hospitality clients across Canada and the UK demonstrate K-Bro's commitment to building relationships that foster continuous improvement, providing

flexibility to adjust to changing circumstances as required and which incorporate incentives, penalties and the sharing of risks and rewards as circumstances warrant.

In this competitive industry, K-Bro is distinctive in its ability to deliver products and services that provide value to our customers. Management believes that the healthcare and hospitality sectors of the laundry and linen services industry represent a stable base of annual recurring business with opportunities for growth as additional healthcare beds and funds are made available to meet the needs of an aging demographic.

## **Industry Characteristics and Trends**

Management believes that the industry in which K-Bro operates has historically exhibited the following characteristics and trends:

*Generally Stable Industry with Moderate Cyclicity* – As evidenced by the stability in the number of approved hospital beds in the healthcare system and hotel rooms in the hospitality industry. The potential for step-changes in volumes and revenues that align with contractual arrangements exists within this industry. Service relationships are generally formalized through contracts in the healthcare sector that are typically long term (from five to ten years), while contracts in the hospitality sector usually range from two to five years.

*Outsourcing and Privatization* – In Canada, healthcare institutions and regional authorities are facing funding pressures and must continually evaluate the allocation of scarce resources. Consequently, there are often advantages to healthcare institutions in outsourcing the processing of healthcare linen to private sector laundry companies such as K-Bro because of the economies of scale and significant management expertise that can be provided on a more comprehensive and cost-effective basis than customers can achieve in operating their own laundry facilities.

*Fragmentation* – Most cities have at least one and sometimes several private sector competitors operating in the healthcare and hospitality sectors of the laundry and linen services industry. Management believes that the presence of these operators provides consolidation opportunities for larger industry participants with the financial means to complete acquisitions. Management evaluates M&A opportunities on an ongoing basis and looks to leverage the Corporation's strong liquidity position, balance sheet and access to the capital markets to execute on these opportunities as they arise.

## **Customers and Product Mix**

K-Bro's Canadian customers include some of the largest healthcare institutions and hospitality providers in Canada. In the UK, Fishers' customers include some of the largest hotel chains operating in Scotland. Healthcare customers include acute care hospitals and long-term care facilities, primarily in Canada. Most of K-Bro's hospitality customers (typically greater than 250 rooms) have historically generated between 0.5 million and 3 million pounds of linen per year. Most healthcare customers have historically generated between 0.5 million pounds of linen per year for a hospital and up to approximately 40 million pounds of linen per year for a Canadian healthcare region.

## SELECTED QUARTERLY FINANCIAL INFORMATION

(In reporting currency \$ Canadian)

	Three Months Ended September 30,								
	Canadian Division	UK Division		Canadian Division	UK Division		Canadian Division	UK Division	
	2023	2023	2023	2022	2022	2022	2021	2021	2021
<i>(thousands, except percentages and per share amounts)</i>									
Revenue	\$ 63,379	\$ 23,513	\$ 86,892	\$ 55,067	\$ 18,561	\$ 73,628	\$ 46,169	\$ 15,324	\$ 61,493
EBITDA <sup>(1)</sup>	12,924	4,769	17,693	9,030	1,991	11,021	9,510	2,087	11,597
Net earnings (loss)	4,169	2,498	6,667	2,122	334	2,456	2,944	(796)	2,148
<i>Net earnings (loss) per share:</i>									
Basic	\$ 0.392	\$ 0.235	\$ 0.627	\$ 0.199	\$ 0.031	\$ 0.230	\$ 0.277	\$ (0.075)	\$ 0.202
Diluted	\$ 0.389	\$ 0.233	\$ 0.622	\$ 0.197	\$ 0.031	\$ 0.228	\$ 0.275	\$ (0.074)	\$ 0.201
Total assets			\$ 341,662			\$ 321,527			\$ 330,494
Long-term debt (excludes lease liabilities)			55,162			\$ 39,141			38,270
<i>Weighted average number of shares outstanding:</i>									
Basic			10,645,029			10,659,322			10,611,024
Diluted			10,729,425			10,750,072			10,699,841

	Nine Months Ended September 30,								
	Canadian Division	UK Division		Canadian Division	UK Division		Canadian Division	UK Division	
	2023	2023	2023	2022	2022	2022	2021	2021	2021
<i>(thousands, except percentages and per share amounts)</i>									
Revenue	\$ 178,039	\$ 60,381	\$ 238,420	\$ 157,584	\$ 48,368	\$ 205,952	\$ 135,027	\$ 26,755	\$ 161,782
EBITDA <sup>(1)</sup>	32,987	9,540	42,527	24,620	3,146	27,766	31,890	1,973	33,863
Net earnings (loss)	9,243	4,115	13,358	5,220	(1,594)	3,626	11,561	(4,368)	7,193
<i>Net earnings (loss) per share:</i>									
Basic	\$ 0.865	\$ 0.385	\$ 1.250	\$ 0.490	\$ (0.150)	\$ 0.340	\$ 1.090	\$ (0.412)	\$ 0.678
Diluted	\$ 0.860	\$ 0.383	\$ 1.243	\$ 0.487	\$ (0.149)	\$ 0.338	\$ 1.083	\$ (0.409)	\$ 0.674
Total assets			\$ 341,662			\$ 321,527			\$ 330,494
Long-term debt (excludes lease liabilities)			55,162			\$ 39,141			38,270
<i>Weighted average number of shares outstanding:</i>									
Basic			10,689,006			10,650,136			10,604,170
Diluted			10,750,178			10,722,741			10,677,525

(1) EBITDA is defined as revenue less operating expenses (which equates to net earnings before income tax, finance expense, and depreciation and amortization). See "Terminology".

## STRATEGY

K-Bro maintains the following three-part strategic focus:

**Secure and Maintain Long-Term Contracts with Large Healthcare and Hospitality Customers** – K-Bro's core service is providing high quality laundry and linen services at competitive prices to large healthcare and hospitality customers under long-term contracts. K-Bro's contracts in the healthcare sector typically range from five to ten years in length. Contracts in the hospitality sector typically range from two to five years.

**Extend Core Services to New Markets** – Management has demonstrated its ability to successfully expand K-Bro's business into new markets from its established bases. Since 2005, K-Bro has entered four new geographic markets across Canada, and in late 2017 entered into the UK market. These new markets have contributed significantly to K-Bro's growth. Management believes that new outsourcing opportunities will continue to arise in the near to medium-term and that K-Bro is well-positioned for continued growth, particularly as healthcare and hospitality institutions continue to increase their focus on core services and confront pressures for capital and cost savings.

Management may in the future expand its core services to new markets either through acquisitions or by establishing new facilities. Its choice of areas for expansion will depend on the availability of suitable acquisition candidates, the volume of healthcare and hospitality linen to be processed and the policies of applicable governments.

**Introduce Related Services** – In addition to focusing on its core services, the Corporation also attempts to capitalize on attractive business opportunities by introducing closely-related services that enable it to provide more complete solutions to K-Bro's healthcare and hospitality customers. These related service offerings include K-Bro Operating Room services and on-site services. K-Bro performs the sterilization of operating room linen packs for nine major hospitals in Toronto and the four health authorities in the Vancouver area.

## SUMMARY OF INTERIM RESULTS AND KEY EVENTS

Net earnings for the third quarter of 2023 were \$6.7 million or \$0.63 per Common Share (basic). Cash flow from operating activities was \$22.8 million and distributable cash flow was \$11.2 million. Consolidated revenue for the third quarter of 2023 increased to \$86.9 million or by 18.0% compared to 2022, primarily related due to the impact of price increases implemented to offset inflation-related cost pressures. In addition, this increase was also due to the acquisition of Paranet and the elimination of COVID-19 pandemic restrictions which drove stronger hospitality client activity.

EBITDA (see "Terminology") increased in the third quarter 2023 to \$17.7 million or by 60.5% compared to \$11.0 million in 2022. On a consolidated basis, EBITDA margin increased to 20.4% in 2023 from 15.0% in 2022.

For the Canadian division, the EBITDA margin the third quarter increased to 20.4% in 2023 from 16.4% in 2022. The increase in margin is primarily related to the impact of price increases across various markets serviced, labour efficiencies, and delivery route optimization combined with reduced fuel rates.

For the UK division, in the third quarter, the EBITDA margin increased to 20.3% in 2023 from 10.7% in 2022. The improvement in EBITDA margin is primarily related to the impact of price increases, increased productivity, and delivery cost efficiencies.

## Key events in our markets are summarized below.

### **Acquisition of Villeray**

On November 1, 2023, the Corporation announced the closing of a share purchase agreement to acquire all the assets of Buanderie Villeray and its affiliate Buanderie La Relance (together “Villeray”), a private laundry and linen services company incorporated in Canada and operating in Montréal, Quebec in the healthcare and hospitality markets. The total consideration is \$11.5 million plus a potential earnout of \$1 million, subject to fair value considerations, working capital adjustments, and completion of the related purchase price accounting. K-Bro will invest a further \$5 million in capital expenditures to expand capacity and enhance operational efficiencies. As part of the transaction, K-Bro will close its Granby facility and consolidate its volumes into Villeray. The acquisition will be accounted for using the acquisition method, whereby the purchase consideration will be allocated to the net assets acquired. The purchase price will be satisfied by drawing down on the Corporation’s revolving credit facility.

At the time the financial statements were authorized for issue and due to the timing of the acquisition, the Corporation has not yet completed the accounting for the acquisition of Villeray.

### **Acquisition of Buanderie Paranet**

On March 1, 2023 the Corporation completed the acquisition of 100% of the share capital of Buanderie Para-Net (“Paranet”) operating as Paranet (the “Acquisition”), a private laundry and linen services company operating in Québec City, Quebec. The Acquisition was completed through a share purchase agreement consisting of existing working capital, fixed assets, contracts and an employee base. The contracts acquired are in the Quebec healthcare and hospitality sector, which complements the existing business of the Corporation. Based on the Corporation’s evaluation of the Acquisition and the criteria in the identification of a business combination established in IFRS 3, the Acquisition will be accounted for using the acquisition method, whereby the purchase consideration will be allocated to the fair values of the net assets acquired.

At the time the financial statements were authorized for issue, and due to the timing of the Acquisition, the Corporation has not yet completed the accounting for the Acquisition of Paranet. This includes the accounting for the amounts attributable to property, plant & equipment, intangible assets and the associated goodwill. No measurement adjustments were made in the current period.

The Corporation financed the Acquisition and transaction costs from existing loan facilities.

The preliminary purchase price allocated to the net assets acquired, based on their estimated fair values, is as follows:

	<b>2023</b>
Cash consideration	\$ 11,248
Contingent consideration	\$ 945
Total purchase price	\$ 12,193

The assets and liabilities recognized as a result of the Acquisition are as follows:

Net Assets Acquired:	
Accounts receivable	1,132
Prepaid expenses and deposits	137
Linen in service	970
Accounts payable and accrued liabilities	(1,119)
Lease liabilities	(1,176)
Deferred income taxes	(1,474)
Property, plant and equipment <sup>(1)</sup>	5,923
Intangible assets	2,450
Net identifiable assets acquired	6,843
Goodwill	5,350
Net assets acquired	\$ 12,193

(1) Includes ROUA from the Canadian Division of \$1,176 comprised of buildings of \$964 and vehicles of \$212

The provisional intangible assets acquired are made up of \$2,450 for the customer contracts along with related relationships and customer lists. The goodwill is attributable to the workforce, and the efficiencies and synergies created between the existing business of the Corporation and the acquired business. Goodwill will not be deductible for tax purposes.

#### a) Contingent consideration

The estimated fair value of payment has been classified as contingent consideration by exercising significant judgment as to whether it should be classified as such, or as remuneration to the former owner, who will be employed subsequent to the close of the transaction. The Corporation has determined by considering all relevant factors included in the agreements as it pertains to employment terms, valuation of the business, and other relevant terms that the additional consideration is most appropriately reflected as contingent consideration.

In the event that a certain EBITDA target is achieved by Paranet for the twelve month period ended August 31, 2023, additional undiscounted consideration of up to \$1,890 will be payable in cash during the fourth quarter of 2023. The potential undiscounted amount payable within the agreement will only be paid should the EBITDA target be achieved. Should the EBITDA target not be achieved no payment will be made.

The fair value of the contingent consideration of \$945 was estimated by considering the probability-adjusted future expected cash flows in regards to Paranet achieving the target that would result in consideration being paid. The impact of discounting those future cash flows was not considered because the impact would be nominal.

Since the estimated future cash flows and probability of achieving the EBITDA target are an unobservable input, the fair value of the contingent consideration is classified as a level 3 fair value measurement.

#### b) Acquisition related costs

For the nine months ended September 30, 2023, \$280 in professional fees associated with the Acquisition has been included in Corporate expenses.

#### c) Revenue and profit information

The acquired business contributed revenues of \$5,561 to the Corporation for the period from March 1, 2023 to September 30, 2023. If the Acquisition had occurred on January 1, 2023, consolidated pro-forma revenue for the period ended September 30, 2023 would have been \$239,745.



The acquired business contributed a net deficit of (\$214) to the Corporation for the period from March 1, 2023 to September 30, 2023. If the Acquisition had occurred on January 1, 2023, consolidated pro-forma net income for the period ended September 30, 2023 would have been \$13,315.

These amounts have been calculated using Parinet's results and adjusting them for differences in the accounting policies between the Corporation and Parinet as it pertains to property, plant and equipment. The Corporation follows the requirements of IFRS 16 whereas Parinet previously reported under Accounting Standards for Private Enterprises (ASPE), the additional depreciation and amortization that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from January 1, 2023, together with the consequential tax effects.

### ***Normal Course Issuer Bid***

On May 15, 2023, the Corporation announced its intention to proceed with a normal course issuer bid (NCIB) to purchase up to 881,481 of its common shares ("Shares") through the TSX and / or alternative Canadian trading systems, representing approximately 10% of the public float of 8,814,816 shares as at May 9, 2023, during the twelve-month period commencing May 18, 2023 and ending May 17, 2024.

During the nine months ended September 30, 2023, the Corporation repurchased and cancelled 102,828 common shares (2022 – nil) for \$3,323 under the NCIB, net of transaction costs of \$1 which were recorded in share capital. The average share price was \$32.32, with prices ranging from \$30.80 to \$35.50.

The Corporation recorded a financial liability related to the NCIB due to the automatic share repurchase plan for purchases that could be made from October 1 to November 10, 2023. During the blackout period, no changes can be made as it pertains to the automated share repurchase plan.

### ***3sHealth Contract Extension***

In Q2 2022, the Corporation extended its existing contract with 3sHealth for an additional six years to May 31, 2031 on terms that are consistent with the existing contract.

### ***Revolving Credit Facility***

On August 31, 2023, the Corporation completed an amendment to its existing revolving credit facility to extend the agreement from July 31, 2026 to July 31, 2027, as previously amended on July 18, 2022. In addition, the agreement expanded the revolving credit facility from \$100,000 to \$125,000 plus a \$25,000 accordion. The Corporation's incremental borrowing rate under its existing credit facility is determined by the Canadian prime rate plus an applicable margin based on the ratio of Funded Debt to EBITDA as defined in the credit agreement. During fiscal 2022 and 2023, the Canadian prime rate increased from 3.70% in January 2022 to 6.95% in June 2023, and July 2023 it increased to 7.20%. Had the prime rate in effect at July 12, 2023 been in effect for the nine months ended September 30, 2023, total interest rate expense for the period ended September 30, 2023 would have been \$142 higher than reported assuming equivalent debt levels as at September 30, 2023.

### ***Capital Investment Plan***

For fiscal 2023, the Corporation's planned capital spending is expected to be approximately \$8.0 million on a consolidated basis, excluding the expenditures associated with the Villeray acquisition. 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 2022 that are to be paid in 2023. 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.

## ***Economic Conditions***

Since 2020, due to changing government restrictions to mitigate the ongoing COVID-19 pandemic, supply chain disruption, geopolitical events impacting key inputs such as natural gas, electricity and diesel and inflationary impacts to labour and materials the Corporation has faced varying degrees of financial impact within Canada and the UK. The COVID-19 pandemic has also contributed to unusually competitive labour markets, causing inefficiencies in attracting, training and retaining employees. While labour markets have been stabilizing, certain regional markets continue to experience constrained labour availability.

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.

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.

## **OUTLOOK**

The Corporation's healthcare segment continues to experience a steady growth trend. For the hospitality segment, management expects a solid recovery in activity with the elimination of government-imposed restrictions on international border crossings, increasing business/leisure travel, and price increases which will all continue to support the strong momentum in hospitality revenues experienced through 2022 as well as throughout 2023.

Throughout the pandemic we encountered volatile energy prices, local labour market shortages and cost inflation. 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.

The Corporation has also faced temporary labour inefficiencies from unusually competitive labour markets. Management remains focused on the retention of existing staff, in addition to implementing strategies to recruit and hire new staff. While labour markets have been stabilizing, certain regional markets continue to experience constrained labour availability. The Corporation is managing more challenging regional labour availability with complementary temporary foreign worker programs.

Throughout 2023, EBITDA margins have benefited from price increases that we have secured to offset inflation-related costs. Going forward, management expects EBITDA margins to follow historical seasonal trends.

With continued momentum in existing operations, management has refocused attention on strategic acquisitions, such as the acquisitions of Villeray and Paranet, to accelerate growth in both North America and Europe, geographies 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 and other economic factors on our business, see the “Summary of Interim Results and Key Events”.

## RESULTS OF OPERATIONS

### KEY PERFORMANCE DRIVERS

K-Bro’s key performance drivers focus on growth, profitability, stability and cost containment in order to maintain dividends and maximize Shareholder value in the long term. The following outlines our results on a period-to-period comparative basis in each of these areas:

		Three Months Ended September 30,					
<i>(thousands, except percentages and per share amounts)</i>		Canadian	UK		Canadian	UK	
Category	Indicator	Division	Division	2023	Division	Division	2022
		2023	2023		2022	2022	
Growth	EBITDA <sup>(1)</sup>	43.1%	139.5%	60.5%	-5.0%	-4.6%	-5.0%
	Revenue	15.1%	26.7%	18.0%	19.3%	21.1%	19.7%
	Distributable cash flow <sup>(2)</sup>			49.2%			-4.5%
Profitability	EBITDA <sup>(1)</sup>	\$ 12,924	\$ 4,769	\$ 17,693	\$ 9,030	\$ 1,991	\$ 11,021
	EBITDA margin	20.4%	20.3%	20.4%	16.4%	10.7%	15.0%
	Net earnings (loss)	\$ 4,169	\$ 2,498	\$ 6,667	\$ 2,122	\$ 334	\$ 2,456
Stability	Debt to total capital <sup>(3)</sup>			24.3%			18.4%
	Unutilized line of credit			\$ 67,990			\$ 59,103
	Cash on hand			\$ 4,531			\$ 1,708
	Payout ratio			28.7%			42.9%
	Dividends declared per share			\$ 0.300			\$ 0.300
Cost containment	Wages and benefits	40.0%	32.2%	37.9%	42.0%	35.9%	40.5%
	Utilities	6.1%	11.8%	7.6%	6.3%	13.8%	8.2%
	Delivery	11.2%	12.4%	11.5%	12.7%	15.2%	13.3%
	Expenses included in EBITDA	79.6%	79.7%	79.6%	83.6%	89.3%	85.0%

		Nine Months Ended September 30,					
<i>(thousands, except percentages and per share amounts)</i>		Canadian	UK		Canadian	UK	
Category	Indicator	Division	Division	2023	Division	Division	2022
		2023	2023		2022	2022	
Growth	EBITDA <sup>(1)</sup>	34.0%	203.2%	53.2%	-22.8%	59.5%	-18.0%
	Revenue	13.0%	24.8%	15.8%	16.7%	80.8%	27.3%
	Distributable cash flow <sup>(2)</sup>			52.0%			-20.7%
Profitability	EBITDA <sup>(1)</sup>	\$ 32,987	\$ 9,540	\$ 42,527	\$ 24,620	\$ 3,146	\$ 27,766
	EBITDA margin	18.5%	15.8%	17.8%	15.6%	6.5%	13.5%
	Net earnings (loss)	\$ 9,243	\$ 4,115	\$ 13,358	\$ 5,220	\$ (1,594)	\$ 3,626
Stability	Debt to total capital <sup>(3)</sup>			24.3%			18.4%
	Unutilized line of credit			\$ 67,990			\$ 59,103
	Cash on hand			\$ 4,531			\$ 1,708
	Payout ratio			38.5%			58.6%
	Dividends declared per share			\$ 0.900			\$ 0.900
Cost containment	Wages and benefits	40.2%	33.3%	38.4%	41.3%	36.7%	40.3%
	Utilities	6.3%	12.7%	7.9%	6.3%	16.2%	8.6%
	Delivery	11.4%	13.6%	12.0%	12.7%	15.8%	13.4%
	Expenses included in EBITDA	81.5%	84.2%	82.2%	84.4%	93.5%	86.5%

(1) EBITDA is defined as revenue less operating expenses (which equates to net earnings before income tax, finance expense, and depreciation and amortization). See “Terminology”.

(2) Effective January 1, 2019, distributable cash flow includes the addition of principal elements of lease payments. This accounts for the change in accounting policies and the adoption of IFRS 16, where now the principal elements of lease payments flow through financing outflows opposed to operating cash flows.

(3) Debt to total capital is defined by management as the total long term debt (excludes lease liabilities) divided by the Corporation’s total capital. See “Terminology”.

## Quarterly Financial Information - Consolidated

Historically, the Corporation's financial and operating results, particularly in respect of Fishers, are stronger in the second and third quarters as a result of seasonality and the associated higher hospitality volumes. Other fluctuations in net income from quarter-to-quarter can also be attributed to hiring and labour cost trends, timing of linen purchases, utility costs, timing of repairs and maintenance expenditures, business development, capital spending patterns and changes in corporate tax rates and income tax expenses.

The following table provides certain selected consolidated financial and operating data prepared by management for the preceding eight quarters:

Quarterly Financial Information - Consolidated (thousands, except percentages and per share amounts)	2023			2022				2021
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Healthcare revenue	46,621	45,445	43,823	43,963	42,683	43,523	43,237	41,554
Hospitality revenue	40,271	35,300	26,960	26,708	30,945	27,367	18,197	20,656
Total revenue	86,892	80,745	70,783	70,671	73,628	70,890	61,434	62,210
Expenses included in EBITDA	69,199	66,244	60,450	61,945	62,607	61,207	54,372	53,282
EBITDA <sup>(1)</sup>	17,693	14,501	10,333	8,726	11,021	9,683	7,062	8,928
EBITDA as a % of revenue (EBITDA margin)	20.4%	18.0%	14.6%	12.3%	15.0%	13.7%	11.5%	14.4%
Depreciation and amortization	6,872	6,803	6,321	6,505	6,466	6,570	6,527	6,628
Finance expense	1,860	1,584	1,473	1,639	1,340	1,001	1,000	800
Earnings (loss) before income taxes	8,961	6,114	2,539	582	3,215	2,112	(465)	1,500
Income tax expense (recovery)	2,294	1,423	539	302	759	496	(19)	1
Net earnings (loss)	6,667	4,691	2,000	280	2,456	1,616	(446)	1,499
Net earnings (loss) as a % of revenue	7.7%	5.8%	2.8%	0.4%	3.3%	2.3%	-0.7%	2.4%
Basic earnings (loss) per share	0.627	0.438	0.187	0.026	0.230	0.152	(0.042)	0.141
Diluted earnings (loss) per share	0.622	0.436	0.186	0.026	0.228	0.151	(0.042)	0.140
Total assets	341,662	346,532	337,277	325,760	321,527	329,677	325,041	332,519
Total long-term financial liabilities	113,262	122,178	112,628	105,744	100,408	106,327	99,302	102,617
Funds provided by operations	22,758	1,122	9,308	1,049	11,530	3,838	9,713	7,743
Long-term debt (excludes lease liabilities)	55,162	63,598	53,713	45,166	39,141	45,224	36,615	37,973
Dividends declared per share	0.300	0.300	0.300	0.300	0.300	0.300	0.300	0.300

1) EBITDA is defined as revenue less operating expenses (which equates to net earnings before income tax, finance expense, and depreciation and amortization). See "Terminology".

## Quarterly Financial Information – Canadian Division

The following table provides certain selected consolidated financial and operating data prepared by management for the preceding eight quarters:

Quarterly Financial Information - Canadian Division (thousands, except percentages and per share amounts)	2023			2022				2021
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Healthcare revenue	44,962	43,681	42,243	42,419	41,197	41,936	41,687	39,835
Hospitality revenue	18,417	15,480	13,256	12,032	13,870	11,347	7,547	8,211
Total revenue	63,379	59,161	55,499	54,451	55,067	53,283	49,234	48,046
Expenses included in EBITDA	50,455	48,456	46,141	46,707	46,037	45,212	41,715	40,258
EBITDA <sup>(1)</sup>	12,924	10,705	9,358	7,745	9,030	8,071	7,519	7,788
EBITDA as a % of revenue (EBITDA margin)	20.4%	18.1%	16.9%	14.2%	16.4%	15.1%	15.3%	16.2%
Net earnings	4,169	2,829	2,245	822	2,122	1,669	1,429	2,043
Net earnings as a % of revenue	6.6%	4.8%	4.0%	1.5%	3.9%	3.1%	2.9%	4.3%
Basic earnings per share	0.392	0.264	0.210	0.077	0.199	0.157	0.134	0.192
Diluted earnings per share	0.389	0.263	0.209	0.076	0.197	0.156	0.134	0.191

1) EBITDA is defined as revenue less operating expenses (which equates to net earnings before income tax, finance expense, and depreciation and amortization). See "Terminology".

## Quarterly Financial Information – UK Division

The following table provides certain selected consolidated financial and operating data prepared by management for the preceding eight quarters:

Quarterly Financial Information - UK Division (in reporting currency Canadian \$) (thousands, except percentages and per share amounts)	2023			2022				2021
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Healthcare revenue	1,659	1,764	1,580	1,544	1,486	1,587	1,550	1,719
Hospitality revenue	21,854	19,820	13,704	14,676	17,075	16,020	10,650	12,445
Total revenue	23,513	21,584	15,284	16,220	18,561	17,607	12,200	14,164
Expenses included in EBITDA	18,744	17,788	14,309	15,239	16,570	15,995	12,657	13,024
EBITDA <sup>(1)</sup>	4,769	3,796	975	981	1,991	1,612	(457)	1,140
EBITDA as a % of revenue (EBITDA margin)	20.3%	17.6%	6.4%	6.0%	10.7%	9.2%	-3.7%	8.0%
Net income (loss)	2,498	1,862	(245)	(542)	334	(53)	(1,875)	(544)
Net income (loss) as a % of revenue	10.6%	8.6%	-1.6%	-3.3%	1.8%	-0.3%	-15.4%	-3.8%
Basic earnings (loss) per share	0.235	0.174	(0.023)	(0.051)	0.031	(0.005)	(0.176)	(0.051)
Diluted earnings (loss) per share	0.233	0.173	(0.023)	(0.050)	0.031	(0.005)	(0.175)	(0.051)

Quarterly Financial Information - UK Division (in local currency Sterling £) (thousands, except percentages and per share amounts)	2023			2022				2021
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Healthcare revenue	977	1,049	962	967	987	1,005	912	1,011
Hospitality revenue	12,877	11,787	8,341	9,200	11,327	10,153	6,267	7,325
Total revenue	13,854	12,836	9,303	10,167	12,314	11,158	7,179	8,336
Expenses included in EBITDA	11,042	10,578	8,711	9,553	10,994	10,134	7,448	7,665
EBITDA <sup>(1)</sup>	2,812	2,258	592	614	1,320	1,024	(269)	671
EBITDA as a % of revenue (EBITDA margin)	20.3%	17.6%	6.4%	6.0%	10.7%	9.2%	-3.7%	8.0%
Net income (loss)	1,476	1,108	(151)	(341)	221	(32)	(1,103)	(321)
Net income (loss) as a % of revenue	10.6%	8.6%	-1.6%	-3.3%	1.8%	-0.3%	-15.4%	-3.9%
Basic earnings (loss) per share	0.139	0.103	(0.014)	(0.032)	0.021	(0.003)	(0.104)	(0.030)
Diluted earnings (loss) per share	0.138	0.103	(0.014)	(0.032)	0.020	(0.003)	(0.103)	(0.030)

1) EBITDA is defined as revenue less operating expenses (which equates to net earnings before income tax, finance expense, and depreciation and amortization). See "Terminology".

## Revenue, Earnings and EBITDA

For the three months ended September 30, 2023, K-Bro's consolidated revenue increased by 18.0% to \$86.9 million from \$73.6 million in the comparative period of 2022. On a year-to-date basis, consolidated revenue increased by 15.7% to \$238.4 million compared to \$206.0 million in the comparative period of 2022. This increase was primarily due to increased client activity in the hospitality segment, the impact of price increases across various markets to offset inflation-related costs and the acquisition of Paranet.

In the third quarter of 2023, approximately 54.0% of K-Bro's consolidated revenue was generated from healthcare institutions, which is lower compared to 58.0% in 2022. For consolidated hospitality revenue, the Corporation saw an increase of 30.1% over the comparable 2022 period. The change in revenue mix is primarily related to the increased activity in the hospitality segment due to an uptick in leisure travel and the business travel recovery in certain markets.

Consolidated EBITDA in the third quarter of 2023 increased by \$6.7 million to \$17.7 million compared to \$11.0 million in the comparative period of 2022, and margin increased by 5.4 percentage points to 20.4%. On a year-to-date basis, consolidated EBITDA increased in the year to \$42.5 million from \$27.8 million in 2022, which is an increase of 53.2%. The consolidated EBITDA margin increased to 17.8% in 2023 compared to 13.5% in 2022. The increase in margin is primarily related to increased client activity in the hospitality segment, the impact of price increases implemented, as well as increased productivity and delivery route optimization coupled with lower fuel costs.

Net earnings increased by \$9.8 million on a year-to-date basis or 272.2% from \$3.6 million in 2022 to \$13.4 million in 2023, and net earnings as a percentage of revenue increased by 3.8 percentage points to 5.6% in 2023 from 1.8% in 2022. The increase in net earnings is primarily related to the flow through items in EBITDA discussed above.

## Operating Expenses

Wages and benefits in the third quarter of 2023 increased by \$3.1 million to \$32.9 million compared to \$29.8 million in the comparative period of 2022, and as a percentage of revenue decreased by 2.6 percentage points to 37.9%. On a year-to-date basis, wages and benefits increased by \$8.7 million to \$91.6 million compared to \$82.9 million in the comparative period of 2022, and as a percentage of revenue decreased by 1.9 percentage points to 38.4%. The decrease as a percentage of revenue is primarily related to the impact of price increases secured across various markets and labour efficiencies achieved.

Linen in the third quarter of 2023 increased by \$0.7 million to \$8.8 million compared to \$8.1 million in the comparative period of 2022, and as a percentage of revenue decreased by 0.9 percentage points to 10.1%. On a year-to-date basis, linen increased by \$1.4 million to \$24.5 million compared to \$23.1 million in the comparative period of 2022, and as a percentage of revenue decreased by 0.9 percentage points to 10.3%. The decrease as a percentage of revenue is primarily related to the changes to the mix of linen and higher hospitality volumes processed compared to the prior year.

Utilities in the third quarter of 2023 increased by \$0.5 million to \$6.6 million compared to \$6.1 million in the comparative period of 2022, and as a percentage of revenue decreased by 0.6 percentage points to 7.6%. On a year-to-date basis, utilities increased by \$1.2 million to \$18.9 million compared to \$17.7 million in the comparative period of 2022, and as a percentage of revenue decreased by 0.7 percentage points to 7.9%. The decrease as a percentage of revenue is primarily related to the impact of price increases secured across various markets coupled with lower gas costs in the Canadian market.

Delivery in the third quarter of 2023 increased by \$0.2 million to \$10.0 million compared to \$9.8 million in the comparative period of 2022, and as a percentage of revenue decreased by 1.8 percentage points to 11.5%. On a year-to-date basis, delivery increased by \$0.9 million to \$28.5 million compared to \$27.6 million

in the comparative period of 2022, and as a percentage of revenue decreased by 1.4 percentage points to 12.0%. The decrease as a percentage of revenue is primarily related to the optimization of high-frequency routes, resulting in delivery cost efficiencies as well as lower fuel prices.

Occupancy costs in the third quarter of 2023 increased by \$0.2 million to \$1.4 million compared to \$1.2 million in the comparative period of 2022, and as a percentage of revenue remained constant at 1.6%. On a year-to-date basis, occupancy costs increased by \$0.6 million to \$4.0 million compared to \$3.4 million in the comparative period of 2022, and as a percentage of revenue remained relatively constant at 1.7%.

Materials and supplies in the third quarter of 2023 increased by \$0.6 million to \$3.0 million compared to \$2.4 million in the comparative period of 2022, and as a percentage of revenue increased by 0.3 percentage points to 3.5%. On a year-to-date basis, materials and supplies increased by \$1.3 million to \$9.3 million compared to \$8.0 million in the comparative period of 2022, and as a percentage of revenue remained constant at 3.9%.

Repairs and maintenance in the third quarter of 2023 increased by \$0.6 million to \$3.2 million compared to \$2.6 million in the comparative period of 2022, and as a percentage of revenue increased by 0.2 percentage points to 3.7%. On a year-to-date basis, repairs and maintenance increased by \$1.8 million to \$9.1 million compared to \$7.3 million in the comparative period of 2022, and as a percentage of revenue increased by 0.3 percentage points to 3.8%. The increase as a percentage of revenue is primarily related to the timing of scheduled maintenance activities.

Corporate costs in the third quarter of 2023 increased by \$0.6 million to \$3.3 million compared to \$2.7 million in the comparative period of 2022, and as a percentage of revenue remained constant at 3.7%. On a year-to-date basis, corporate costs increased by \$1.8 million to \$10.0 million compared to \$8.2 million in the comparative period of 2022, and as a percentage of revenue remained relatively constant at 4.2%.

Depreciation of property, plant and equipment and amortization of intangible assets represents the expense related to the appropriate matching of the Corporation's long-term assets to the estimated useful life and period of economic benefit of those assets.

Income tax includes current and future income taxes based on taxable income and the temporary timing differences between the tax and accounting bases of assets and liabilities. Income tax reflects the provision on the earnings of the Corporation.

## LIQUIDITY AND CAPITAL RESOURCES

During Q3 2023, cash generated by operating activities was \$22.8 million with a debt to total capitalization of 24.3%, compared to \$11.5 million and debt to total capitalization of 20.6% in 2022. The increase in cash generated by operating activities is primarily due to the change in working capital items driven from timing of business activity, including the timing of cash receipts from customers.

The Corporation's capital structure includes working capital, a committed revolving credit facility and share capital. We continuously monitor actual and forecast cash flows and monitor the availability on our committed credit facility. Management believes the unutilized balance of \$68.0 million with respect to its revolving credit facility is sufficient for the Corporation's operations in the foreseeable future. However, management intends to continually assess its opportunities to maintain a conservative amount of leverage and balance sheet flexibility in the short and long-term basis in order to ensure that sufficient capital is available for future growth needs.

In the third quarter of 2023, cash used in financing activities was \$15.7 million compared to \$11.2 million used in financing activities in 2022. Financing activities consisted of net proceeds of the revolving credit facility, dividends paid to Shareholders, principal elements of lease payments, and the repurchase of shares under the Normal Course Issuer Bid.

In the third quarter of 2023, cash used in investing activities was \$4.1 million compared to \$3.1 million in 2022. Investing activities are primarily related to the purchase of plant equipment.

### Contractual Obligations

Payments due under contractual obligations for the next five years and thereafter are as follows:

<i>(thousands)</i>	Payments due by year				
	Total	Remainder of 2023	2024 to 2025	2026 to 2027	Subsequent
Long-term debt	\$ 55,162	-	-	55,162	-
Lease liabilities	\$ 58,274	4,793	18,858	13,236	21,387
Utility commitments	\$ 17,791	3,064	13,232	1,495	-
Linen purchase obligations	\$ 5,477	5,477	-	-	-
Property, plant and equipment commitments	\$ 4,752	4,752	-	-	-

The lease liabilities are secured by automotive equipment and plants and are more fully described in the Corporation's audited annual consolidated financial statements for the year ended December 31, 2022. The source of funds for these commitments will be from operating cash flow and, if necessary, the undrawn portion of the revolving credit facility.



## Financial Position

	Nine Months Ended September 30,	Year Ended December 31,
<i>(thousands, except percentages)</i>	2023	2022
Cash and cash equivalents	\$ (4,531)	\$ (2,636)
Long-term debt (excludes lease liabilities)	55,162	45,166
Shareholders' equity	176,637	176,542
Total capital	\$ 227,268	\$ 219,072
Debt to total capital (see <i>Terminology</i> for definition)	24.3%	20.6%

For the period ended September 30, 2023, the Corporation had a debt to total capital of 24.3%, unused revolving credit facility of \$68.0 million and has not incurred any events of default under the terms of its credit facility.

As at September 30, 2023, the Corporation had net working capital of \$38.9 million compared to its working capital position of \$36.6 million at December 31, 2022. The increase in working capital is primarily attributable to the timing of cash receipts from customers and the timing of linen purchases, as well as the acquisition of Paranet.

Management believes that K-Bro has the capital resources and liquidity necessary to meet its commitments, support its operations and finance its growth strategies. In addition to K-Bro's ability to generate cash from operations and its revolving credit facility, K-Bro believes it is also able to raise capital through equity issuances in the market or increase its borrowing capacity, if necessary, to provide for capital spending and to sustain its property, plant and equipment.

## DIVIDENDS

Fiscal Period	Payment Date	# of Shares outstanding	2023		2022	
			Amount per Share	Total Amount (1), (3),(5)	Amount per Share	Total Amount (2), (4),(6)
January	February 15	10,773,190	\$ 0.10000	\$ 1,077	\$ 0.10000	\$ 1,072
February	March 15	10,773,190	0.10000	1,077	0.10000	1,072
March	April 14	10,773,190	0.10000	1,077	0.10000	1,072
Q1			\$ 0.30000	\$ 3,231	\$ 0.30000	\$ 3,216
April	May 15	10,773,190	\$ 0.10000	\$ 1,077	\$ 0.10000	\$ 1,072
May	June 15	10,820,662	0.10000	1,082	0.10000	1,078
June	July 14	10,781,779	0.10000	1,078	0.10000	1,078
Q2			\$ 0.30000	\$ 3,237	\$ 0.30000	\$ 3,228
July	August 15	10,768,585	\$ 0.10000	\$ 1,078	\$ 0.10000	\$ 1,077
August	September 15	10,761,089	0.10000	1,077	0.10000	1,077
September	October 14	10,731,707	0.10000	1,073	0.10000	1,077
Q3			\$ 0.30000	\$ 3,228	\$ 0.30000	\$ 3,234
YTD			\$ 0.90000	\$ 9,696	\$ 0.90000	\$ 9,678

- (1) The total amount of dividends declared was \$0.10000 per share for a total of \$1,077,319 per month for January - March 2023; when rounded in thousands, \$3,231 of dividends were declared in Q1 2023.
- (2) The total amount of dividends declared was \$0.10000 per share for a total of \$1,071,881 per month for January - March 2022; when rounded in thousands, \$3,216 of dividends were declared in Q1 2022.
- (3) The total amount of dividends declared was \$0.10000 per share for a total of \$1,077,319 for April 2023, \$1,082,066 for May 2023, and \$1,078,178 for June 2023. When rounded in thousands, \$3,237 of dividends were declared in Q2 2023.
- (4) The total amount of dividends declared was \$0.10000 per share for a total of \$1,071,881 for April 2022, \$1,077,514 for May 2022, and \$1,077,514 for June 2022. When rounded in thousands, \$3,228 of dividends were declared in Q2 2022.
- (5) The total amount of dividends declared was \$0.10000 per share for a total of \$1,076,859 for July 2023, \$1,076,109 for August 2023, and \$1,073,171 for September 2023. When rounded in thousands, \$3,228 of dividends were declared in Q3 2023.
- (6) The total amount of dividends declared was \$0.10000 per share for a total of \$1,077,417 for July 2022, \$1,077,318 for August 2022, and \$1,077,318 for September 2022. When rounded in thousands, \$3,234 of dividends were declared in Q3 2022.

For the nine months ended September 30, 2023, the Corporation declared a \$0.900 per Common Share dividend compared to \$2.341 per Common Share of Distributable Cash Flow (see “*Terminology*”). The actual payout ratio was 38.5%.

The Corporation’s policy is to pay dividends to Shareholders from its available distributable cash flow while considering requirements for capital expenditures, working capital, growth capital and other reserves considered advisable by the Board of Directors. All such dividends are discretionary. Dividends are declared payable each month in equal amounts to Shareholders on the last business day of each month and are paid by the 15<sup>th</sup> of the following month.

The Corporation designates all dividends paid or deemed to be paid as Eligible Dividends for purposes of subsection 89(14) of the *Income Tax Act* (Canada), and similar provincial and territorial legislation, unless indicated otherwise.

## DISTRIBUTABLE CASH FLOW (see "Terminology")

(all amounts in this section in \$000s except per share amounts and percentages)

The Corporation's source of cash for dividends is distributable cash flow provided by operating activities. Distributable cash flow, reconciled to cash provided by operating activities as calculated under IFRS, is presented as follows:

(thousands, except percentages and per share amounts)	2023			2022				2021
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Cash provided by operating activities	\$ 22,758	\$ 1,122	\$ 9,308	\$ 1,049	\$ 11,530	\$ 3,838	\$ 9,713	\$ 7,743
<i>Deduct (add):</i>								
Net changes in non-cash working capital items <sup>(1)</sup>	8,344	(11,615)	606	(4,994)	1,204	(4,929)	3,098	(1,358)
Share-based compensation expense	438	443	505	410	438	428	512	417
Maintenance capital expenditures <sup>(2)</sup>	379	1,143	936	706	520	1,078	690	281
Principal elements of lease payments	2,360	2,340	2,144	1,908	1,834	1,821	1,834	1,808
Distributable cash flow	\$ 11,237	\$ 8,811	\$ 5,117	\$ 3,019	\$ 7,534	\$ 5,440	\$ 3,579	\$ 6,595
Dividends declared	3,228	3,237	3,231	3,227	3,234	3,228	3,216	3,216
Dividends declared per share	0.300	0.300	0.300	0.300	0.300	0.300	0.300	0.300
Payout ratio <sup>(3)</sup>	28.7%	36.7%	63.1%	106.9%	42.9%	59.3%	89.9%	48.8%
Weighted average shares outstanding during the period, basic	10,645	10,706	10,707	10,675	10,659	10,650	10,641	10,622
Weighted average shares outstanding during the period, diluted	10,729	10,760	10,733	10,751	10,750	10,716	10,703	10,701
<b>Trailing-twelve months ("TTM")</b>								
Distributable cash flow	28,184	24,481	21,110	19,572	23,148	23,502	25,675	27,476
Dividends	12,923	12,929	12,920	12,905	12,894	12,875	12,859	12,846
Payout ratio <sup>(3)</sup>	45.9%	52.8%	61.2%	65.9%	55.7%	54.8%	50.1%	46.8%

(1) Net change in non-cash working capital is excluded from the calculation as management believes it would introduce significant cash flow variability and affect underlying cash flow from operating activities. Significant variability can be caused by such things as the timing of receipts (which individually are large because of the nature of K-Bro's customer base and timing may vary due to the timing of customer approval, vacations of customer personnel, etc.) and the timing of disbursements (such as the payment of large volume rebates done once annually). As well, large increases in working capital are generally required when contracts with new customers are signed as linen is purchased and accounts receivable increase. Management feels that this amount should be excluded from the distributable cash flow calculation.

(2) Maintenance capital expenditures include costs required to maintain or replace assets which do not have a discrete return on investment.

(3) The ratio of dividends paid compared to distributable cash flow is periodically reviewed by the Board of Directors to take into account the current and prospective performance of the business and other items considered to be prudent. Payout ratio is calculated on the dividends declared divided by the distributable cash flow.

## OUTSTANDING SHARES

As at September 30, 2023, the Corporation had 10,731,707 Common Shares outstanding. Basic and diluted weighted average number of Common Shares outstanding for the three months ended September 30, 2023 were 10,645,029 and 10,729,425, respectively (10,659,322 and 10,750,072, respectively, for the comparative 2022 interim periods).

In accordance with the Corporation's Long Term Incentive ("LTI") plan and in conjunction with the performance of the Corporation in the 2022 fiscal year, on April 13, 2023 the Compensation, Nominating and Corporate Governance Committee approved LTI compensation of \$1.8 million (2022 – \$1.8 million) to be paid as Common Shares issued from treasury. As at September 30, 2023, the value of the Common Shares held by the LTI custodian was \$3.4 million (December 31, 2022 – \$1.9 million) which was comprised of 108,183 in unvested Common Shares (December 31, 2022 – 64,552) with a nil aggregate cost (December 31, 2022 – \$nil).

As at November 9, 2023 there were 10,693,835 Common Shares issued and outstanding including 108,183 Common Shares issued but held as unvested treasury shares.

## RELATED PARTY TRANSACTIONS

The Corporation incurred expenses in the normal course of business for advisory consulting services provided by Mr. Matthew Hills, a member of the Board of Directors. The amounts charged are recorded at their exchange amounts and are on arm's length terms. For the three month period ended September 30, 2023, the Corporation incurred fees totaling \$18 compared to \$18 for the same period of fiscal 2022.

## CRITICAL ACCOUNTING ESTIMATES

The preparation of the financial statements, in conformity with IFRS, requires K-Bro to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Management regularly evaluates these estimates and assumptions which are based on past experience and other factors that are deemed reasonable under the circumstances. This involves varying degrees of judgment and uncertainty and, therefore, amounts currently reported in the financial statements could differ in the future. Further to those areas discussed in the Corporation's 2022 audited financial statements and annual MD&A, determining the lease term and incremental borrowing rates under IFRS 16 requires critical judgments as well as assumptions that have been incorporated into any asset impairment testing models.

### Economic Conditions

Since 2020, due to changing government restrictions to mitigate the ongoing COVID-19 pandemic, supply chain disruption, geopolitical events impacting key inputs such as natural gas, electricity and diesel and inflationary impacts to labour and materials the Corporation has faced varying degrees of financial impact within Canada and the UK. 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 and until such time as labour markets stabilize the Corporation will continue to be impacted financially by these conditions.

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.

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.

## TERMINOLOGY

### 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.

(thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net earnings	\$ 6,667	\$ 2,456	\$ 13,358	\$ 3,626
Add:				
Income tax expense	2,294	759	4,256	1,236
Finance expense	1,860	1,340	4,917	3,341
Depreciation of property, plant and equipment	6,719	5,854	19,626	17,646
Amortization of intangible assets	153	612	370	1,917
<b>EBITDA</b>	<b>\$ 17,693</b>	<b>\$ 11,021</b>	<b>\$ 42,527</b>	<b>\$ 27,766</b>

## 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.

## **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.

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

## **Off Balance Sheet Arrangements**

As at September 30, 2023, the Corporation has not entered into any off balance sheet arrangements.

## **NEW ACCOUNTING PRONOUNCEMENTS ADOPTED**

The Corporation adopted the following accounting standards and amendments that were effective for our interim and annual consolidated financial statements commencing January 1, 2023. These changes did not have a material impact on our financial results and are not expected to have a material impact in the future.

- Amendments to IAS 12, Deferred Tax related to Assets and Liabilities arising from a Single Transaction, that clarify how companies account for deferred tax on transactions such as leases and decommissioning obligations. The amendments are effective for annual periods beginning on or after January 1, 2023.
- Amendments to IAS 12, Accounting Policies, relates to a temporary exception to the requirements regarding deferred tax assets and liabilities related to pillar two income taxes.

## **RECENT ACCOUNTING PRONOUNCEMENTS**

New standards, interpretations, or amendments that have been issued, or are not yet effective, have not been further described or early adopted, where no material impact is expected on the Corporation's consolidated financial statements.

The Corporation has not adopted any standard, interpretation or amendment that has been issued but is not yet effective and no material impact is expected on the Corporation’s consolidated financial statements. The Corporation will continue to assess the impacts, if any, the amendments to existing standards will have on our consolidated financial statements, but we currently do not expect any material impacts.

## CRITICAL RISKS AND UNCERTAINTIES

As at September 30, 2023, there are no material changes in the Corporation's risks or risk management activities since December 31, 2022. The Corporation's results of operations, business prospects, financial condition, cash dividends to Shareholders and the trading price of the Common Shares are subject to a number of risks. These risk factors include: dependence on long-term contracts and the associated renewal risk thereof; the effects of market volatility and uncertainty; potential future tax changes; the Corporation's competitive environment and increased competition; our ability to acquire and successfully integrate and operate additional businesses; utility costs; the labour markets; the fact that our credit facility imposes numerous covenants and encumbers assets; and, environmental matters.

The Corporation's operating results may be subject to increased risk due to current geopolitical instability that could have an impact on key input prices, such as natural gas. This uncertainty has become more pronounced with the conflict in the Ukraine which began in late February 2022 and has resulted in significant volatility in natural gas supply rates. We expect to mitigate some of these cost increases with price increases to our customers through price escalation measures although there could be some lag.

For a discussion of these risks and other risks associated with an investment in the Common Shares, see "*Risk Factors – Risks Related to K-Bro and the Laundry and Linen Industry*" detailed in the Corporation's Annual Information Form" that is available at [www.sedarplus.ca](http://www.sedarplus.ca).

## CONTROLS AND PROCEDURES

In order to ensure that information with regard to reports filed or submitted under securities legislation present fairly in all material respects the financial information of K-Bro, management, including the President and Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), are responsible for establishing and maintaining disclosure controls and procedures, as well as internal control over financial reporting.

### Disclosure Controls and Procedures

The Corporation has established disclosure controls and procedures to ensure that information disclosed in this MD&A and the related financial statements of K-Bro was properly recorded, processed, summarized and reported to the Board of Directors and the Audit Committee. The Corporation's CEO and CFO have evaluated the effectiveness of these disclosure controls and procedures for the period ended September 30, 2023, and the CEO and CFO have concluded that these controls were operating effectively.

### Internal Controls over Financial Reporting

The CEO and CFO acknowledge responsibility for the design of internal controls over financial reporting ("ICFR"). Consequently the CEO and CFO confirm that the additions to these controls that occurred during the period ended September 30, 2023, did not materially affect, or are reasonably likely to materially affect, the Corporation's ICFR. Based upon their evaluation of these controls for the year ended September 30, 2023, the CEO and CFO have concluded that these controls were operating effectively.

A control system, no matter how well conceived and operated, can provide only reasonable, and not absolute, assurance that the objectives of the control system are met. As a result of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instance of fraud, if any, have been detected. These inherent limitations include, amongst other items: (i) that managements' assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; or, (ii) the impact of isolated errors.

Additionally, controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override. The design of any system of controls is also based, in part, upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential (future) conditions.

### Limitation on Scope of Design

K-Bro has limited the scope of design of DCP and our Internal Controls over Financial Reporting (ICFR) to exclude controls, policies and procedures of Paranet acquired on March 1, 2023. The scope limitation is in accordance with section 3.3(1)(b) of NI 52-109 which allows an issuer to limit its design of ICFR to exclude controls, policies and procedures of a business that the issuer acquired not more than 365 days before the end of the fiscal period.

	<b>As at September 30, 2023</b>
<b>Paranet</b> (millions)	
Current assets	\$ 2,712
Non-current assets	\$ 13,121
Current liabilities	\$ 1,056
Non current liabilities	\$ 2,650

	<b>Period Ended September 30, 2023</b>
<b>Paranet</b> (millions)	
Revenue	\$ 5,561
Expense	\$ 5,853
Income from Operations	\$ (292)

Additional information regarding K-Bro including required securities filings are available on our website at [www.k-brolinen.com](http://www.k-brolinen.com) and on the Canadian Securities Administrators' website at [www.sedarplus.ca](http://www.sedarplus.ca); the System for Electronic Document Analysis and Retrieval ("SEDAR").

Vous pouvez obtenir des renseignements supplémentaires sur la Société, y compris les documents déposés auprès des autorités de réglementation, sur notre site Web, au [www.k-brolinen.com](http://www.k-brolinen.com) et sur le site Web des autorités canadiennes en valeurs mobilières au [www.sedarplus.ca](http://www.sedarplus.ca), le site Web du Système électronique de données, d'analyse et de recherche (« SEDAR »).