

K-BRO LINEN INCOME FUND

\$12.29; KBL.UN-TSX
52-Week Range: \$12.69-\$8.50

SECOND QUARTER 2009 RESULTS

K-Bro Linen Income Fund has reported its Q2/09 financial results (ended June 30, 2009).

For the quarter, K-Bro reported revenue of \$21.7 million, compared with \$21.8 million in Q2/08. The small net revenue decrease was a result of the softening of hospitality revenues (primarily due to the difficult economy and its impact on K-Bro's hotel customers) offset by net increases in price and volume from existing and new customers. Year-to-date, revenue is up 4.2% to \$43.2 million from \$41.5 million in the first six months of 2008.

Net earnings after taxes increased in the quarter to \$2.2 million from \$1.0 million in Q2/08, a result of higher 2009 EBITDA and no loss on the disposal of equipment as occurred in 2008.

EBITDA for the quarter rose to \$4.1 million compared with \$3.3 million in Q2/08, an increase of 24.5%. The significant increase in the EBIDTA margin to 18.9% from 15.1% is attributable to improvements in labour and utility costs as well as the new Calgary plant which was fully on stream in the quarter. Year to date, EBITDA was \$7.6 million compared with \$5.5 million in the first six months of 2008, with the corresponding EBITDA margin being 17.6% compared to 13.2%.

Distributable cash in the quarter was \$3.4 million (\$0.49 per Unit). Distributions amounted to \$1.9 million (\$0.275 per Unit), for a payout ratio of 56.2% compared with 65.4% in Q1/08. Year-to-date, the payout ratio is 57.7% versus 79.0% in the first six months of 2008.

COMMENT: *K-Bro has a conservative payout ratio relative to other trusts and income funds. The Fund is also preparing for its year-end 2010 conversion to a corporation by setting realistic pay-out ratios now and then not disappointing later when it becomes a taxable entity.*

K-Bro Conference Call

On K-Bro's conference call on the results, K-Bro management said that the Fund's outlook is positive for the remainder of the year, albeit somewhat tempered by the uncertainty in the economy. The majority of K-Bro's business is based on publicly-funded long-term healthcare contracts. The Fund has a strong balance sheet with low debt levels and has control over costs. Management also noted that it believes the current payout ratio is sustainable under the current structure.



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THE COMPANY

K-Bro Linen Income Fund, through subsidiary K-Bro Linen Systems Inc., is the largest healthcare and hospitality laundry and linen processor in Canada. The Fund's services include the collection, laundering, delivery, and replenishing of linen. K-Bro operates processing facilities in British Columbia, Alberta, Ontario and Quebec, and is the only processor in Canada with plants in several major cities. Revenues are generated by: (a) publicly-funded long-term contracts with healthcare institutions such as acute care and long-term care hospitals (79%); and (b) hospitality industry customers, such as large downtown hotels (21%).

The Fund is a mutual fund trust, and K-Bro makes monthly distributions to unitholders of the Fund. Under new income tax rules of 2007, K-Bro will have to convert to a dividend-paying corporation by the 2011 taxation year. The Fund is aiming for a December 31, 2010 conversion.

COMMENT: *For more on K-Bro Linen Income Fund, see eResearch's August 4, 2009 StockPotentials report, which includes an analysis of possible future dividends and share price potential.*

Note: *eResearch reports on K-Bro Linen Income Fund and other companies are available FREE on our website at www.eresearch.ca.*

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