



TFSA Investors: The Best Recession-Resistant Business You Will Ever Find

Description

K-Bro Linen ([TSX:KBL](#)) is the largest owner and operator of laundry and [linen processing facilities](#) in Canada. The company provides a range of services to large healthcare institutions, hotels, and other commercial accounts. These services include the processing, management, and distribution of linen, including sheets, blankets, towels, operating room linen, and a variety of other types of linen.

Flourishing business

K-Bro provides laundry and linen services primarily to the healthcare and hospitality sectors. Typical services offered by K-Bro include the processing, management, and distribution of general and operating room linens. Other types of processors in K-Bro's industry in Canada include privately owned facilities, public sector central laundries and private sector on-premise laundries.

Lucrative industry

Participants in other segments of the laundry and [linen services industry](#), such as uniform rental companies and facilities management companies typically do not offer services that significantly overlap with those offered by K-Bro. The size of the market for services offered by K-Bro to the healthcare and hospitality segments of the Canadian laundry and linen services industry is between \$550 million and \$700 million.

The healthcare and hospitality segments 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 Canadian population.

Stable customer base

K-Bro's customers include some of the largest healthcare and hospitality institutions in Canada. K-Bro's healthcare customers include hospitals and long-term-care facilities. Linen processing

requirements in the hospitality segment are, to a significant extent, related to the number of hotel rooms and associated hotel room occupancy rates. The numbers of hotel rooms across Canada and associated occupancy rates in Canada have remained relatively consistent over the past five years.

Optimizing input costs

As a significant portion of K-Bro's cost structure relates to the consumption of natural gas and electricity, K-Bro has entered fixed price natural gas and electricity contracts with fixed terms between one and two years to fix the price on a portion of the company's natural gas and electricity requirements over this time period.

Upon expiration of these contracts, K-Bro will be subject to prevailing market rates. K-Bro reviews the company's natural gas and electricity requirements and the related forward pricing regularly to determine if it is feasible and desirable to lock in additional volumes or years.

Operational efficiencies

The majority of K-Bro's processed volume of linen is for healthcare authorities, such as Alberta Health Services and Fraser Health Authority, which represent a number of different institutions. In these cases, K-Bro consolidates and standardizes linen, purchasing and processing the same pool of linen for all customers using a common stock of linen. This provides significant operating benefits to K-Bro, as it eliminates the need to manage each institution's volume separately and reduces costs for the associated health authority.

Intelligent capital allocation

As part of the provision of laundry and linen services, K-Bro has invested in linen, carts, and equipment. These significant investments enable K-Bro to maintain a high level of service over long periods of time from the company's highly automated and efficient plants.

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