VESTIS: AN OUTSIDE-IN CLIMATE STRESS TEST · PART 2

What a carbon price costs a uniform supplier

BUILT FROM PUBLIC INFORMATION · NAMED COMPANY

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On our estimates, a US carbon price of US$50 a tonne would cost Vestis about $13–19 million a year if none of it is passed on to customers: a fifth to nearly a third of its fiscal 2025 operating income. Under US accounting rules, the bigger effect may be on the balance sheet, where goodwill could be impaired.

The following shows how we reached these numbers, and which assumptions matter most.

Step 1: Model energy use

Vestis doesn't publish its energy use or emissions, so we built a model to estimate them from two public sources.

A peer benchmark. UniFirst, a listed competitor of similar size, publishes detailed figures. In fiscal 2025 (the year to 31 August 2025) it used about 4.0 million gigajoules (GJ) of energy, with fleet fuel making up about 42% of it, and reported Scope 1 emissions of 212,841 tonnes of CO_2e. We split UniFirst's energy by fuel, setting the diesel and gasoline mix so that the split matches its reported Scope 1 total.

Vestis's own volume figures. On its earnings calls, management reports revenue per pound of textiles processed: $1.42 in the third quarter of fiscal 2026, up 4 cents on a year earlier. Dividing fiscal 2025 revenue by the year-earlier figure, we estimate Vestis processes around 900 million kilograms of textiles a year. That is about twice UniFirst's 429 million kilograms, on only modestly

more revenue ($2.7 billion against $2.4 billion). We think the main reason Vestis earns less per kilogram is its mix of heavy, lower-priced items such as linens. Vestis doesn't publish a breakdown.

Laundry energy use correlates better with kilograms washed and dried than with revenue. Fleet fuel scales with routes, and so roughly correlates with revenue. Scaling UniFirst's figures both ways gives a range:

ESTIMATE, FISCAL 2025	LOW (PLANTS SCALED BY REVENUE)	HIGH (PLANTS SCALED BY VOLUME)
Fleet fuel (diesel and gasoline)	53 million litres	53 million litres
Natural gas and other plant fuel	2.2 million GJ	4.1 million GJ
Electricity	121,000 MWh	223,000 MWh
Scope 1 emissions	about 240,000 t	about 340,000 t
Energy bill at 2025 US prices	about $76 million	about $101 million

We use the high case as our base, because volume is the better guide to laundry energy. That case assumes Vestis's plants use as much energy per kilogram as UniFirst's. On that assumption, Vestis's Scope 1 and 2 emissions per dollar of revenue would be about half as high again as UniFirst's (about 150 against about 100 tonnes per $1 million of revenue). The gap comes from earning less per kilogram, not from any view of how efficient its plants are.

Step 2: Apply a carbon price scenario

We modelled a carbon price of US$50 a tonne, applied "upstream". That is our scenario, not a current bill. For context, the Center for Climate and Energy Solutions (C2ES) reviewed two economy-wide carbon tax or fee bills introduced in the current (119th) Congress: the MARKET CHOICE Act would start at $40 a tonne in 2027, and the America's Clean Future Fund Act at $75. Neither has passed. Both charge fossil fuel producers and importers, and both would also reach some large industrial emitters directly. We assume the cost reaches Vestis through the price of diesel, gasoline and natural gas. At $50 a tonne, that adds about 13.5 cents to a litre of diesel and about $2.50 to a gigajoule of natural gas. At 2025 industrial natural gas prices, the carbon price adds about half to the cost of the fuel.

We also assumed power companies pass their own carbon cost on to customers, at the average US grid emission rate, and that the price applies to Vestis US operations only (91% of revenue).

The result:

WHERE THE COST LANDS	$50/T, LOW CASE	$50/T, HIGH CASE
Delivery fleet fuel	$5.9M	$5.9M
Plant fuel	$5.1M	$9.4M
Purchased electricity	$1.9M	$3.5M

WHERE THE COST LANDS	$50/T, LOW CASE	$50/T, HIGH CASE
Total, before any pass-through	**$13.0M**	**$18.9M**
Share of FY2025 operating income ($64.4M)	20%	29%

All of this lands in cost of services on the income statement. Vestis's operating margin was about 2.4% in fiscal 2025 and its net leverage 4.72x, so a cost of this size reaches profit and the debt ratios quickly.

Step 3: Run it through the income statement

With the high case and no cost increase passed on to customers, fiscal 2025 would have looked like this:

$ MILLIONS	AS REPORTED	OUR ESTIMATE, WITH A US$50/T CARBON PRICE
Revenue	2,734.8	2,734.8
Cost of services	2,010.1	2,029.0
Goodwill impairment	—	4.7
Operating income	64.4	40.9
Interest expense	92.3	93.6
Net loss	(40.2)	(60.0)
Net leverage (covenant basis)	4.72x	5.12x
Interest coverage	3.0x	2.8x

The net loss widens from $40 million to $60 million. Interest rises a little, because the cash cost is funded by borrowing and, on our assumptions, higher leverage would push up the margin on part of the term debt. Net leverage would move to about 5.1x. That is under the 5.25x ceiling that applied at the end of fiscal 2025. The ceiling steps down to 4.50x from the first quarter of fiscal 2027, which began in October 2026. This restates fiscal 2025; it is not a forecast of Vestis's covenant position.

Step 4: The balance sheet

US accounting rules (US GAAP) test the two big asset classes in very different ways.

Goodwill is tested at least once a year by comparing the fair value of each reporting unit (estimated from discounted cash flows and market multiples) with its carrying value (the book value of the unit’s net assets, including goodwill). A permanent cost increase lowers the discounted cash flows, and so the fair value, straight away.

Property and equipment is tested only when there is a sign of trouble. The first step compares the assets' carrying value with their undiscounted future cash flows. Undiscounted cash flows are larger than discounted ones, so the assets clear this test more easily, and a carbon price has to rise much further before they are impaired. Canadian public companies generally report under IFRS (SEC-registered issuers may use US GAAP). Under IFRS (IAS 36) there is no undiscounted first step: assets are tested against a recoverable amount based on discounted cash flows or fair value, so an impairment can come sooner.

For Vestis, the gap between the two is large:

FLAT CARBON PRICE	GOODWILL WRITE-DOWN (US BUSINESS)	PROPERTY AND EQUIPMENT
$25/t	none	no impairment
$50/t	about $5 million	no impairment
$100/t	about $207 million	no impairment
$150/t	about $409 million	no impairment
Price at which an impairment starts	about $49/t	about $200/t

Vestis doesn't disclose how far the fair value of its US business exceeds its carrying value. We assumed a 10% cushion between the two values. The goodwill figures depend heavily on that assumption, so read them as a measure of sensitivity, not a prediction. The direction is robust, though: with $896 million of goodwill in its US business and a thin margin, Vestis's goodwill would feel a carbon price long before its plants did. On our model, goodwill would only outlast the plants if the cushion were above about 40%. If goodwill impairment occurred, this shows up as an expense above operating income on the income statement, meaning it immediately reduces both operating income and net income. It's a non-cash charge. Covenant definitions usually add back non-cash charges like this, so we have left it out of covenant leverage.

A flat price applied today is a stress test. We also modelled a later, rising path: US$50 a tonne from 2029, rising 5% a year. If that path had been fully expected at the fiscal 2025 goodwill test, it would have cut the value of Vestis's US business by about $180 million (present value after tax, at a 9% discount rate). That is less than the $198 million cushion we assumed, so on our model the test would still have passed, but only just: a 9% cushion instead of 10% would tip it into a write-down.

Two things move the answer in opposite directions. A higher price brings an impairment closer. Passing part of the cost on to customers pushes it away: with half passed on, a $50 price would cost about $9 million a year, and goodwill would not be impaired until about $100 a tonne.

Key assumptions

- **Pass-through.** Vestis is exiting unprofitable accounts, and pounds processed fell 4.5% in the third quarter of fiscal 2026, while revenue per pound rose. How much of a carbon cost it could

pass on is an open question, so our base case assumes none. Every 10% it can pass on is worth about $2 million a year at $50 a tonne.

- **Energy costs.** The low and high energy estimates give carbon costs about $6 million a year apart. Vestis knows which case is closer, and we don't.
- **The goodwill cushion.** It determines whether $50 a tonne is a footnote or a write-down.
- **Efficiency.** Every gigajoule of gas not burned avoids both the fuel cost and the carbon cost. Investing in fleet fuel switching or energy efficiency can both lower current costs and reduce exposure to a future carbon price. That is where the opportunities in Part 5 begin.

Next week: heat. Why hotter summers show up as a labour cost, and why a proposed workplace rule matters more than the weather.

Sources: Vestis Corporation, Form 10-K for the fiscal year ended 3 October 2025, and Q4 fiscal 2025 earnings release (1 December 2025); Vestis Q2 and Q3 fiscal 2026 earnings calls; UniFirst Corporation, Impact Report 2025 (fiscal year to 31 August 2025); C2ES, Carbon Pricing Proposals in the 119th Congress (February 2026); US EPA GHG Emission Factors Hub and eGRID2023; US EIA Short-Term Energy Outlook (October 2026); FASB ASC 350 and ASC 360; IAS 36; National Instrument 52-107. Method and assumptions are set out in the appendix to the full report.

Read online: www.anticlimatic.ca/insights/vestis-part-2