Research Update:

# Jalles Machado S.A. 'BB' Ratings Affirmed On Resilience To Sector Challenges; Outlook Remains Stable

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## Rating Action Overview

- Jalles Machado S.A.'s credit metrics have demonstrated resilience to unfavorable pricing, reflecting the company's solid operational performance, strong financial flexibility, and disciplined capital allocation.
- We expect crushing volume to recover to slightly above 8 million tons in the 2026-2027 harvest amid productivity improvements, keeping leverage as measured by adjusted net debt to EBITDA steady at 2.4x by the end of the fiscal year.
- On Sept. 15, 2026, S&P Global Ratings therefore affirmed its 'BB' long-term issuer credit rating on Jalles Machado S.A. The outlook remains stable.
- The stable outlook reflects our expectation that Jalles will maintain its adjusted net debt to EBITDA at 2.4x in the 2026-2027 harvest, although free operating cash flow after leasing will be at around negative R$100 million, followed by improvements to 2.0x and above positive R$50 million, respectively, in the next harvest.

## Rating Action Rationale

**Jalles' credit metrics show resilience to challenging industry conditions.** In the first quarter of the 2026-2027 harvest, Jalles reached consolidated crushing volume of 3.1 million tons, up 10.1% from 2.8 million tons in the same period in the previous harvest. The higher volume reflected productivity gains to 89.6 tons of cane per hectare from 83.4 tons of cane per hectare, while total sugar recoverable grew to 119.1 kilograms per ton from 117.6 kilograms per ton, supported by favorable early-season climate conditions, as well as continued investments in irrigation and sugarcane fields.

As El Niño approaches--which could increase temperatures in the regions where Jalles operates or delay harvesting and crushing due to increased rainfall--the company has accelerated its harvest volume and demonstrated solid industrial efficiency in its sugarcane fields. We therefore forecast that the company will reach a record crushing volume of slightly above 8 million tons in the 2026-2027 harvest, versus 7.1 million tons in the 2025-2026 harvest and 7.9 million tons in the 2024-2025 harvest.

**Sound hedged sugar volume should offset softer sugar and ethanol prices.** Jalles' large share of hedged sugar for the 2026-2027 harvest provides cash flow predictability amid volatile market conditions. The company has over 75% fixed sugar prices for the 2026-2027 harvest and nearly 15% fixed sugar prices for 2027-2028, with average sugar prices--based on an average of very high polarization (VHP), crystal, and organic sugar and considering the remainder of unhedged volume--of Brazilian real (R$) 2,922 per ton, compared with R$2,870 in the previous harvest.

We believe the company will continue implementing countercyclical measures to help it navigate the weaker ethanol pricing, such as by adjusting its production mix, carrying ethanol inventories to capture more favorable prices, and making efforts to renew its organic sugar volume contracts following the new U.S. tariffs announced in late July. We estimate ethanol prices--including hydrous and anhydrous--at an average of R$3.0 per liter in the 2026-2027 harvest, down from R$3.4 per liter in the 2025-2026 harvest.

We estimate Jalles will reach net revenue of R$2.3 billion and EBITDA of R$1.3 billion for the 2026-2027 harvest, compared with R$2.1 billion and R$1.3 billion, respectively, in the previous harvest. We forecast leverage, as measured by adjusted net debt to EBITDA, to be unchanged at 2.4x by the end of the harvest. For the 2027-2028 harvest, we estimate leverage will fall to 2.0x as EBITDA improves amid greater crushing volumes and the maintenance of solid cash cost of production, on the back of investments in sugarcane fields and a supportive outlook for sugar prices. Meanwhile, we do not expect any upside to ethanol prices, given the increase of corn ethanol supply in the domestic market.

**Free operating cash flow (FOCF) should improve as capital expenditure (capex) falls to maintenance levels.** With no upcoming expansion projects, we estimate a reduction in capex to R$1 billion in the 2026-2027 harvest, compared with R$1.2 billion-R$1.3 billion in the previous few harvests. Although we estimate FOCF after leasing to be negative R$100 million this harvest, we anticipate that it will improve to above R$50 million starting in the next harvest, demonstrating Jalles' prudent capital allocation.

Additionally, the company's moderate dividend payments should support cash preservation. We forecast a dividend distribution of up to R$10 million per year in the next two harvests and R$30 million-R$50 million thereafter. Therefore, if any unforeseen cash outflow arises that could materially weaken credit metrics, we would assess whether the credit metrics have sufficient headroom to absorb the impact. Meanwhile, liquidity remains robust, which should provide financial flexibility and a solid cushion against sector challenges--also underpinning the rating affirmation.

# Outlook

The stable outlook reflects our expectation that Jalles' sugarcane crushing volumes will recover in the 2026-2027 harvest amid improved productivity, which will partly offset deteriorated ethanol prices. We expect adjusted net debt to EBITDA to remain 2.4x for this harvest and then gradually improve to 2.0x in the 2027-2028 harvest. While elevated capex and recurring working capital should pressure FOCF after leasing, we expect Jalles will maintain its sources over uses of cash at more than 20% for the next 12 months.

### Downside scenario

We could take a negative rating action on Jalles if its adjusted net debt to EBITDA exceeds 2.5x and its funds from operations (FFO) to debt falls to below 30%, consistently, alongside a larger FOCF deficit. This could happen if ethanol prices deteriorate further amid stagnant productivity. In this scenario, liquidity could also weaken.

### Upside scenario

Although it's unlikely given Jalles' smaller scale than higher-rated peers, we could raise our ratings over the next 18-24 months if the company increases crushing volumes to nearly full capacity, while maintaining low cash costs amid supportive ethanol prices and hedged sugar volumes. In this scenario, we would expect adjusted net debt to EBITDA below 1.5x, FFO to debt above 60%, and FOCF to debt above 45%, consistently, even with elevated capex and working capital needs.

## Company Description

Jalles is a Brazilian sugar and ethanol producer that operates three sugarcane crushing mills with a consolidated crushing capacity of 9 million tons. Its units Jalles Machado and Otavio Lage are located in Goiás, and Santa Vitória is located in Minas Gerais. The Jalles Machado and Otavio Lage mills are located approximately 40 kilometers from each other, enabling the company to benefit from logistical synergies and sugarcane availability.

Jalles has a diversified portfolio of products, including organic, white, and VHP sugar; hydrated and anhydrous ethanol; byproducts such as yeast, sanitizing products, and natural rubber; and energy cogeneration.

The company has been publicly traded on the Brazilian Stock Exchange since early 2021 but is controlled by the nonoperating holding company, Grupo Otávio Lage, through Planagri S.A.

## Our Base-Case Scenario

### Assumptions

- Brazil's GDP growth at 1.8% in 2026, 1.7% in 2027, and 2.2% in 2028
- Brazil's annual average inflation at 4.7% in 2026, 4.1% in 2027, and 3.7% in 2028, affecting labor-related costs (harvesting, transportation, and industrial)
- Average foreign exchange rate of R$5.15 per US$1 in 2026, R$5.25 per US$1 in 2027, and R$5.35 per US$1 in 2028
- Crushing volume of 8.1 million tons in the 2026-2027 harvest, 8.6 million tons in the 2027-2028 harvest, and 8.8 million in the 2028-2029 harvest, with consolidated 83 tons of cane per hectare in the 2026-2027 harvest and 84-85 tons of cane per hectare in the next harvest
- Production mix between sugar and ethanol of 41%/59% in fiscal year 2027 and 55%/45% from fiscal 2028 onward
- Average gross VHP price of R$2.372 per ton in the 2026-2027 harvest, R$2.299 per ton in the 2027-2028 harvest, and R$2.120-R$2.160 per ton from the 2028-2029 harvest onward, reflecting already fixed volumes and prices and following the future curve for the NY#11 contract and the foreign exchange rate curve for nonfixed prices and volumes

- Average gross crystal sugar price of R$2.598 per ton in the 2026-2027 harvest, R$2.596 per ton in the 2027-2028 harvest, and R$2.340-R$2.380 per ton from the 2028-2029 harvest onward, considering a premium of 15% over VHP sugar
- Average gross organic sugar price of R$3.796 per ton in the 2026-2027 harvest, R$4.175 per ton in the 2027-2028 harvest, and R$4.000-R$4.200 per ton from the 2028-2029 harvest onward, considering a premium of 80%-100% over VHP sugar
- Average Brent price of around US$89 per barrel in fiscal 2027, US$76 per barrel in fiscal 2028, and US$65 per barrel thereafter, assuming a more moderate correlation between Brent and ethanol prices, as observed recently
- Average gross hydrated ethanol price of R$3.0 per liter in fiscal 2027, R$3.0-R$3.1 per liter in fiscal 2028, and R$3.1-R$3.2 per liter in fiscal 2029
- Average gross anhydrous ethanol price of R$3.0 per liter in fiscal 2027, R$3.0-R$3.1 per liter in fiscal 2028, and R$3.1-R$3.2 per liter in fiscal 2029
- Total capex, including maintenance and crop treatment requirements, of R$1.0 billion-R$1.1 billion annually
- Dividend payment of 25% of the previous year's net income

## Key metrics

**Jalles Machado S.A.--Forecast summary**

| Period ending | Mar-31-2023 | Mar-31-2024 | Mar-31-2025 | Mar-31-2026 | Mar-31-2027 | Mar-31-2028 | Mar-31-2029 | Mar-31-2030 |
|---|---|---|---|---|---|---|---|---|
| (Mil. BRL) | 2023a | 2024a | 2025a | 2026a | 2027e | 2028f | 2029f | 2030f |
| Revenue | 1,707 | 1,910 | 2,338 | 2,149 | 2,268 | 2,589 | 2,574 | 2,672 |
| Gross profit | 1,168 | 1,368 | 1,656 | 1,492 | 1,577 | 1,881 | 1,893 | 1,978 |
| EBITDA (reported) | 1,550 | 1,377 | 1,526 | 960 | 1,314 | 1,560 | 1,577 | 1,651 |
| Plus: Operating lease adjustment (OLA) rent | -- | -- | -- | -- | -- | -- | -- | -- |
| Plus/(less): Other | (392) | (167) | (39) | 341 | -- | -- | -- | -- |
| EBITDA | 1,159 | 1,210 | 1,487 | 1,300 | 1,314 | 1,560 | 1,577 | 1,651 |
| Less: Cash interest paid | (190) | (236) | (332) | (470) | (513) | (449) | (397) | (386) |
| Less: Cash taxes paid | (5) | -- | (15) | (7) | (0) | (13) | (17) | (20) |
| Plus/(less): Other | -- | -- | -- | -- | -- | -- | -- | -- |
| Funds from operations (FFO) | 964 | 974 | 1,140 | 823 | 801 | 1,099 | 1,163 | 1,246 |
| EBIT | 753 | 331 | 577 | 447 | 514 | 620 | 625 | 649 |
| Interest expense | 243 | 351 | 457 | 493 | 512 | 447 | 397 | 385 |
| Cash flow from operations (CFO) | 974 | 1,091 | 1,282 | 1,287 | 1,080 | 1,223 | 1,274 | 1,364 |
| Capital expenditure (capex) | 983 | 1,224 | 1,167 | 1,123 | 1,088 | 1,062 | 1,101 | 1,137 |

**Jalles Machado S.A.--Forecast summary**

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Free operating cash flow (FOCF) | (10) | (133) | 115 | 164 | (8) | 161 | 173 | 227 |
| Dividends | 52 | 93 | 20 | -- | 2 | 0 | 37 | 49 |
| Share repurchases (reported) | 14 | -- | -- | -- | -- | -- | -- | -- |
| Discretionary cash flow (DCF) | (76) | (227) | 94 | 164 | (10) | 160 | 136 | 178 |
| Debt (reported) | 2,125 | 2,637 | 2,977 | 3,528 | 3,815 | 3,565 | 3,315 | 3,265 |
| Plus: Lease liabilities debt | 1,224 | 1,380 | 1,571 | 1,373 | 1,408 | 1,443 | 1,454 | 1,461 |
| Plus: Pension and other postretirement debt | -- | -- | -- | -- | -- | -- | -- | -- |
| Less: Accessible cash and liquid Investments | (999) | (1,050) | (1,237) | (1,805) | (2,027) | (1,879) | (1,707) | (1,778) |
| Plus/(less): Other | -- | -- | -- | -- | -- | -- | -- | -- |
| Debt | 2,350 | 2,967 | 3,310 | 3,096 | 3,196 | 3,129 | 3,062 | 2,948 |
| Equity | 1,937 | 2,075 | 2,003 | 2,010 | 2,010 | 2,156 | 2,313 | 2,489 |
| FOCF (adjusted for lease capex) | (630) | (459) | (107) | 81 | (99) | 68 | 104 | 162 |
| Interest expense (reported) | 243 | 351 | 457 | 493 | 512 | 447 | 397 | 385 |
| Capex (reported) | 628 | 830 | 727 | 655 | 1,088 | 1,062 | 1,101 | 1,137 |
| Cash and short-term investments (reported) | 1,013 | 1,067 | 1,241 | 1,805 | 2,027 | 1,879 | 1,707 | 1,778 |
| **Adjusted ratios** | | | | | | | | |
| Debt/EBITDA (x) | 2.0 | 2.5 | 2.2 | 2.4 | 2.4 | 2.0 | 1.9 | 1.8 |
| FFO/debt (%) | 41.0 | 32.8 | 34.4 | 26.6 | 25.1 | 35.1 | 38.0 | 42.2 |
| FFO cash interest coverage (x) | 6.1 | 5.1 | 4.4 | 2.7 | 2.6 | 3.4 | 3.9 | 4.2 |
| EBITDA interest coverage (x) | 4.8 | 3.4 | 3.3 | 2.6 | 2.6 | 3.5 | 4.0 | 4.3 |
| CFO/debt (%) | 41.4 | 36.8 | 38.7 | 41.6 | 33.8 | 39.1 | 41.6 | 46.3 |
| FOCF/debt (%) | (0.4) | (4.5) | 3.5 | 5.3 | (0.2) | 5.1 | 5.6 | 7.7 |
| DCF/debt (%) | (3.2) | (7.6) | 2.8 | 5.3 | (0.3) | 5.1 | 4.4 | 6.0 |
| Lease capex-adjusted FOCF/debt (%) | (26.8) | (15.5) | (3.2) | 2.6 | (3.1) | 2.2 | 3.4 | 5.5 |
| Annual revenue growth (%) | 17.8 | 11.8 | 22.4 | (8.1) | 5.5 | 14.2 | (0.6) | 3.8 |
| Gross margin (%) | 68.4 | 71.7 | 70.8 | 69.4 | 69.6 | 72.7 | 73.5 | 74.0 |
| EBITDA margin (%) | 67.9 | 63.4 | 63.6 | 60.5 | 57.9 | 60.3 | 61.3 | 61.8 |
| Return on capital (%) | 22.9 | 7.1 | 11.1 | 8.6 | 10.0 | 11.8 | 11.7 | 12.0 |

**Jalles Machado S.A.--Forecast summary**

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Return on total assets (%) | 14.5 | 5.2 | 8.3 | 6.1 | 6.8 | 8.0 | 8.2 | 8.4 |
| EBITDA/cash interest (x) | 6.1 | 5.1 | 4.5 | 2.8 | 2.6 | 3.5 | 4.0 | 4.3 |
| EBIT interest coverage (x) | 3.1 | 0.9 | 1.3 | 0.9 | 1.0 | 1.4 | 1.6 | 1.7 |
| Debt/debt and equity (%) | 54.8 | 58.8 | 62.3 | 60.6 | 61.4 | 59.2 | 57.0 | 54.2 |
| Debt fixed-charge coverage (x) | 4.8 | 3.4 | 3.3 | 2.6 | 1.5 | 2.2 | 2.4 | 3.8 |
| Debt/debt and undepreciated equity (%) | 54.8 | 58.8 | 62.3 | 60.6 | 61.4 | 59.2 | 57.0 | 54.2 |

All figures are adjusted by S&P Global Ratings, unless stated as reported. a--Actual. e--Estimate. f--Forecast. R$--Brazilian real.

# Liquidity

We view Jalles' liquidity as adequate. For the 12 months from June 30, 2026, sources over uses of cash will be well above 1.2x, and we expect sources would well exceed uses even if EBITDA declined by 30% from our base-case scenario.

The company's liquidity reflects its solid cash position and FFO generation, even though we anticipate deteriorated ethanol prices. Its extended debt maturity schedule and ample access to credit lines, including via capital markets and bilateral financing lines, allows the company to sustain a solid liquidity cushion even amid peaks of working capital requirements and high capex.

Additionally, Jalles has demonstrated prudent financial risk management and maintains well-established relationships with banks, which also supports our view of its liquidity.

| Principal liquidity sources | Principal liquidity uses |
|---|---|
| • Cash position of R$1.6 billion as of June 30, 2026<br>• Expected cash FFO of R$1.2 billion in the next 12 months from June 30, 2026<br>• New contracted debt of R$650 million issued after June 2026 | • Short-term debt of R$167 million as of June 30, 2026<br>• Working capital outflow, including seasonal, of R$400 million in the next 12 months from June 30, 2026<br>• Capex of R$1 billion in the next 12 months from June 30, 2026<br>• Dividend distribution of R$2 million |

# Covenants

Jalles has acceleration financial covenants on its debt that are measured annually at the end of March:

- Net debt to EBITDA equal to or below 3.0x,
- EBITDA interest coverage equal to or above 2.5x,
- Current liquidity equal to or above 1.1x, and
- Net debt excluding finished goods inventories to EBITDA equal to or below 2.0x.

In our covenant calculations, we adjust our figures to consider only the company's financial debt, as well as adjust EBITDA considering International Financial Reporting Standards 16. However, we adjust total debt by adding reported lease liabilities, which added R$1.1 billion in debt as of June 30, 2026.

Jalles complied with all covenants as of June 30, 2026. We expect cushion of more than 50% over its leverage ratio, a cushion of above 60% over its interest coverage, a cushion of above 20% of its current liquidity, and a cushion of over 60% for its leverage ratio including inventory.

**Rating Component Scores**

| Component | |
|---|---|
| Foreign currency issuer credit rating | BB/Stable/-- |
| Local currency issuer credit rating | BB/Stable/-- |
| Business risk | Fair |
| Country risk | Moderately high risk |
| Industry risk | Intermediate risk |
| Competitive position | Fair |
| Financial risk | Significant |
| Cash flow/leverage | Significant |
| Anchor | bb |
| **Modifiers** | |
| Diversification/portfolio effect | Neutral/Undiversified |
| Capital structure | Neutral |
| Financial policy | Neutral |
| Liquidity | Adequate |
| Management and governance | Neutral |
| Comparable rating analysis | Neutral |
| Stand-alone credit profile | bb |

# Related Criteria

- Criteria | Corporates | General: Sector-Specific Corporate Methodology, July 7, 2025
- Criteria | Corporates | General: Methodology: Management And Governance Credit Factors For Corporate Entities, Jan. 7, 2024
- Criteria | Corporates | General: Corporate Methodology, Jan. 7, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013

- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

# Ratings List

| Ratings List | |
|---|---|
| **Ratings Affirmed** | |
| Jalles Machado S.A. | |
| Issuer Credit Rating | BB/Stable/-- |