

TREASURY REVIEW & FINANCING CAPACITY SELF-ASSESSMENT

The J. M. Smucker Company NYSE: SJM · Packaged Foods · FY2026 (ended April 30, 2026)

SAMPLE — REPRESENTATIVE OUTPUT Illustrative of a Sentinel Treasury Review. Built from public SEC filings; not a current rating opinion.

Sentinel verdict — Investment grade; deleveraging on track

Smucker carries elevated post-acquisition leverage ($\approx 3.9x$ net debt / adjusted EBITDA) from the 2023 Hostess deal, but it is deleveraging on schedule and its cash generation is strong and stable ($\approx \$1.16B$ free cash flow). The non-cash Hostess impairments that pushed GAAP earnings negative have depressed reported optics — not the cash treasury reality. Liquidity is adequate (thin cash by design, backstopped by an undrawn revolver and durable free cash flow), the maturity ladder is staggered with no near-term wall, and the dividend is covered $\approx 2.5x$. Incremental debt capacity is currently limited ($\approx \$0.3$ – $\$0.6B$ before downgrade pressure) and expands as EBITDA normalizes and debt is repaid.

1. Liquidity position

Headline: adequate. Cash is deliberately thin ($\$58.6M$) for a staples issuer that sweeps free cash to debt paydown, but it is backstopped by an undrawn revolving credit facility and durable free cash flow of $\approx \$1.16B$. Near-term obligations are comfortably covered.

Liquidity source	FY2026	Comment
Cash & equivalents	\$58.6M	Swept to debt paydown by policy
Operating cash flow	$\approx \$1,473M$	Stable, staples-grade
Free cash flow	$\approx \$1,156M$	After $\approx \$317M$ capex
Revolver (committed)	Undrawn	Primary liquidity backstop

Sentinel read: liquidity is not the constraint; the constraint is leverage. The thin cash balance is a capital-allocation choice (cash directed to deleveraging), not a liquidity weakness, given the committed revolver and the size and stability of free cash flow.

2. Capital structure & debt-maturity profile

The Hostess acquisition (Nov 2023) lifted total debt from $\$4.4B$ to a peak of $\$8.5B$. Two years of disciplined paydown have reduced it to $\$7.09B$ — roughly $\$1.46B$ repaid.

Capital structure (FY2026)	\$M	% of debt
Current portion of debt	570.9	8%
Long-term notes & term loan	6,392.8	90%
Finance leases	125.3	2%
Total debt	7,089.0	100%
Less: cash	(58.6)	—
Net debt	7,030.4	—

Maturity profile: the long-term stack is staggered across 2028–2053 senior-note maturities plus the acquisition term loan (per the FY2026 10-K debt footnote). Only $\approx 8\%$ of debt is current, so there is no refinancing wall; the company retains investment-grade access to term out maturities opportunistically.

3. Leverage & coverage — the deleveraging trajectory

Using adjusted EBITDA ($\approx \$1.8\text{B}$, normalizing out the non-cash Hostess impairments), net leverage has fallen from $\approx 5.0\text{x}$ at the FY2024 acquisition peak toward management's $\approx 3.0\text{x}$ target. Cash coverage remains comfortably investment-grade.

Metric	FY2024	FY2025	FY2026
Total debt (\$B)	8.55	7.76	7.09
Net debt (\$B)	8.49	7.69	7.03
Net debt / adj. EBITDA	$\approx 5.0\text{x}$	$\approx 4.3\text{x}$	$\approx 3.9\text{x}$
Adj. EBITDA / interest	$\approx 6.7\text{x}$	$\approx 5.0\text{x}$	$\approx 4.7\text{x}$
Free cash flow (\$B)	0.64	0.82	1.16

GAAP vs cash — the key call. FY2025 reported a net loss of $\$1.23\text{B}$, driven almost entirely by a non-cash impairment of Hostess/Sweet Baked Snacks goodwill and intangibles. Free cash flow that same year was a positive $\approx \$0.82\text{B}$ and has since grown to $\approx \$1.16\text{B}$. A treasury or credit reader who anchors on GAAP net income mis-reads the credit; the cash reality is a steadily deleveraging investment-grade issuer.

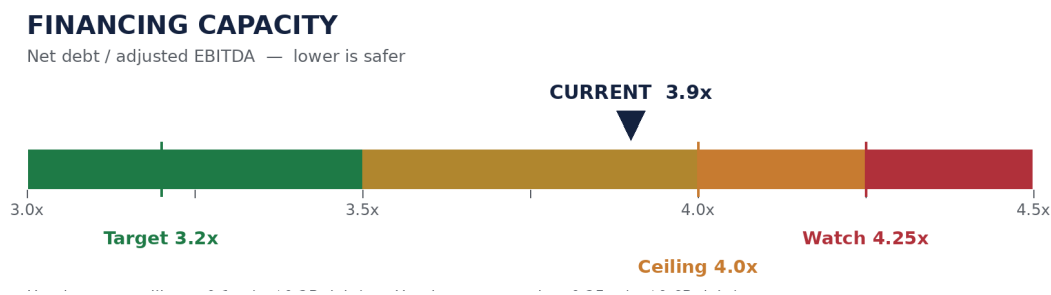
4. Covenant headroom

Smucker's investment-grade bank facility carries a maximum net-leverage covenant (illustratively $\approx 4.25\text{--}4.50\text{x}$ for this tier). At $\approx 3.9\text{x}$, headroom is roughly $0.4\text{--}0.6\text{x}$ of EBITDA — adequate but not generous, and the single most important number for the treasury team to protect. Coverage and interest-cost covenants are not binding.

Watch item: a second Hostess-segment impairment would be non-cash and would not move the leverage covenant (which is EBITDA-based), but it would further erode the book-equity cushion and could draw negative agency commentary.

5. Financing capacity — how much debt before a downgrade?

The core self-assessment question. At the BBB / Baa2 tier the agencies tolerate roughly $3.5\text{--}4.0\text{x}$ net leverage for a stable staples issuer with Smucker's scale and cash flow. With adjusted EBITDA near $\$1.8\text{B}$, each 0.1x of leverage is $\approx \$180\text{M}$ of debt. Current position $\approx 3.9\text{x}$.



Scenario	Net leverage	Incremental debt room
Hold at agency comfort ceiling ($\approx 4.0x$)	4.0x	$\approx \$0.2B$
Reach downgrade-watch ($\approx 4.25x$)	4.25x	$\approx \$0.6B$
Deleverage to target first ($\approx 3.2x$)	3.2x	Capacity expands materially

Implication: a bolt-on acquisition of up to $\approx \$0.5B$ is absorbable today within the rating; a large debt-funded deal is not, without equity or a deleveraging pause that the agencies would penalize. Capacity is set to widen automatically as free cash flow retires debt and EBITDA normalizes — the disciplined path is to deleverage first, then re-arm capacity.

6. Working-capital efficiency

Smucker's cash conversion cycle is a lean ≈ 24 days (DSO ≈ 27 , DIO ≈ 68 , DPO ≈ 71) — efficient for packaged foods. There is modest incremental headroom: a strategic supplier-finance / payables program could extend DPO and release one-time cash to accelerate deleveraging without touching the income statement. Sentinel's Working-Capital Optimization module sizes this opportunity precisely; even a conservative program could free several hundred million dollars of additional debt-paydown capacity.

7. Rating trajectory

Scenario	Sentinel read	Path
Base	BBB / Baa2 (stable)	Continued FCF-funded paydown; net leverage $\approx 3.9x - \approx 3.2x$ within 18–24 months; dividend held, buybacks restrained.
Upside	Positive outlook	EBITDA normalization + sustained sub-3.2x leverage; coffee/pet strength offsets Sweet Baked Snacks; re-opens M&A capacity.
Downside	Negative outlook	Debt-funded M&A or a demand shock pushes leverage back above $\approx 4.25x$; a second large impairment compounds the optics.

8. Treasury recommendations

- Prioritize deleveraging.** Direct free cash flow to debt paydown until net leverage falls below $\approx 3.2x$; hold large buybacks until then. Deleveraging is the binding priority and the cheapest way to re-arm financing capacity.
- Hold the dividend.** The dividend is covered $\approx 2.5x$ by free cash flow and is not the constraint — protect it; it is a credibility signal to both equity and credit investors.
- Manage the maturity ladder.** Term out near-term maturities opportunistically while investment-grade spreads are favorable, and keep the ladder staggered — never let a wall form.
- Preserve revolver capacity.** Keep the revolver undrawn as the liquidity backstop; the thin cash balance is acceptable only because the revolver and free cash flow are reliable.
- Gate M&A on leverage.** No large debt-funded deal until net leverage is below $\approx 3.5x$; size bolt-ons to keep pro-forma leverage under $\approx 4.0x$.

6. **Mine working capital.** Stand up a supplier-finance / receivables program (Sentinel WCF) to release one-time working-capital cash and accelerate the deleveraging path without an income-statement cost.
7. **Watch the impairment story.** Track the Sweet Baked Snacks segment: further impairment is non-cash but a repeat would pressure the equity cushion and invite agency scrutiny — get ahead of the narrative.

Prepared by Sentinel Credit · Treasury Review module. *Figures derived from The J. M. Smucker Company's public SEC filings (FY2023–FY2026, fiscal year ending April 30). Adjusted EBITDA normalizes non-cash impairment and acquisition/restructuring charges. This is a representative sample of a Sentinel Treasury Review, not a current rating opinion or investment advice. Sentinel Credit, Inc. is not an NRSRO.*