Meridian Commercial Bank

Credit & Underwriting Division

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CREDIT ANALYSIS REPORT

Corporate Loan Underwriting

Loan Ref: MCB-2024-CRE-00847

Report Date: November 14, 2024

BORROWING ENTITY

Vertex Dynamics Corp.

4820 Harborview Drive, Suite 300
Chicago, IL 60601

Industry: Manufacturing & Industrial Equipment
Entity Type: Delaware C-Corporation
Established: 2009
Tax ID: VDC-TXN-8847321

CREDIT REQUEST SUMMARY

Facility Type	Term Loan
Requested Amount	**$8,500,000**
Proposed Tenor	7 Years
Proposed Rate	SOFR + 285 bps
Collateral Type	Real Estate / Equipment
Guarantor	James R. Halloway
Relationship Mgr.	Sophie L. Chen
Credit Officer	Marcus T. Wren

RECOMMENDATION: CONDITIONAL APPROVAL

Internal Risk Rating: **3B — Acceptable Risk**

Approval Authority: **Senior Credit Committee**

Executive Summary

Vertex Dynamics Corp. (“VDC” or the “Borrower”) is requesting a $8.5 million senior secured term loan to fund the acquisition of advanced CNC machining equipment and the expansion of its primary manufacturing facility in Chicago, Illinois. VDC is a mid-market manufacturer of precision industrial components serving aerospace, defense, and automotive OEM customers. The company has demonstrated consistent revenue growth averaging 11.4% annually over the past four fiscal years, supported by long-term supply agreements with three investment-grade counterparties.

The credit analysis team finds the request within acceptable risk parameters subject to compliance with the financial covenants outlined in Section 7. The primary credit considerations are the borrower’s adequate debt-service coverage, strong management tenure, and the tangible collateral base, partially offset by moderate leverage and exposure to cyclical end-markets.

Key Financial Indicators — FY2024 (Projected)

REVENUE	EBITDA	DSCR	TOTAL DEBT/EBITDA	LTV (COLLATERAL)
$41.2M	$6.8M	1.48×	3.7×	61.3%
▲9.8% YoY	▲16.5% YoY	Min. Required: 1.25×	Covenant Max: 4.5×	Max Policy: 75%

Borrower Profile & Business Overview

Company Background

Founded in 2009 by James R. Halloway (current CEO) and Dr. Linda Marsh (Chief Technology Officer), Vertex Dynamics Corp. has grown from a 12-person job-shop into a 290-employee precision manufacturing enterprise. The company operates two facilities totalling approximately 145,000 sq. ft. of production floor space. VDC holds AS9100 Rev. D and ISO 9001:2015 certifications, which are required qualifications for its primary customer segments.

VDC's customer concentration risk is moderate: its three largest customers — Apex Aerospace LLC, Nimbus Defense Systems, and Synapse Automotive Group — collectively represent 63% of trailing twelve-month revenues. All three counterparties carry investment-grade credit ratings from an independent rating agency. The remaining 37% of revenue is spread across 48 smaller accounts, providing a reasonable diversification buffer.

Operational Snapshot

Employees (FTE)	290
Production Capacity	145,000 sq. ft.
Shifts per Day	2 (5-day week)
OEE Rating	83%
Backlog (12-mo.)	$22.4M
Key Certifications	AS9100D, ISO 9001
Primary Markets	Aerospace, Defense
Secondary Markets	Automotive OEM

Management Team

Name	Role / Tenure
James R. Halloway	CEO — 15 yrs
Dr. Linda Marsh	CTO — 15 yrs
Robert G. Stanton	CFO — 8 yrs
Patricia W. Nguyen	VP Operations — 6 yrs
Daniel F. Okafor	VP Sales — 5 yrs

Financial Analysis

Income Statement Summary (USD Thousands)

Line Item	FY2021	FY2022	FY2023	FY2024P
Net Revenue	$28,410	$33,180	$37,560	$41,200
Cost of Goods Sold	$18,950	$21,870	$24,380	$26,340
Gross Profit	$9,460	$11,310	$13,180	$14,860
Gross Margin	33.3%	34.1%	35.1%	36.1%
SG&A Expenses	$4,820	$5,490	$5,940	$6,250
EBITDA	$4,640	$5,820	$7,240	$8,610
Depreciation & Amort.	$1,230	$1,350	$1,480	$1,810
EBIT	$3,410	$4,470	$5,760	$6,800
Interest Expense	$620	$740	$890	$1,240
EBT	$2,790	$3,730	$4,870	$5,560
Net Income (after tax)	$2,010	$2,660	$3,510	$4,000
Net Margin	7.1%	8.0%	9.3%	9.7%

Balance Sheet Highlights (USD Thousands) — FY2023 Audited

Asset	Amount	Liability / Equity	Amount
Cash & Equivalents	$3,420	Accounts Payable	$2,180
Accounts Receivable	$5,890	Short-Term Debt	$1,500
Inventory	$4,210	Current Portion LTD	$980
Prepaid & Other	$620	Other Current Liab.	$640
Total Current	**$14,140**	**Total Current**	**$5,300**
PP&E (Net)	$18,360	Long-Term Debt	$9,840
Intangibles	$1,220	Deferred Tax Liab.	$870
Other Long-Term	$480	Other LT Liab.	$430
Total Assets	**$34,200**	**Total Equity**	**$17,760**

Debt Service Capacity & Coverage Analysis

Pro Forma Debt Service Coverage Ratio

DSCR Calculation — Post-Closing Pro Forma

Item	FY2024P	FY2025F
EBITDA	$8,610,000	$9,340,000
Less: Cash Taxes	(1,560,000)	(1,690,000)
Less: Unfunded CapEx	(680,000)	(720,000)
Less: Changes in Working Capital	(340,000)	(380,000)
Adjusted CFADS	**$6,030,000**	**$6,550,000**
Annual Debt Service (P+I)	$4,070,000	$4,070,000
DSCR	**1.48×**	**1.61×**
Minimum Covenant Threshold	1.25×	1.25×
Headroom	**+0.23×**	**+0.36×**

Borrower meets DSCR covenant in base case and moderate stress scenario.

Sensitivity Analysis

The table below presents DSCR outcomes under three scenarios reflecting potential revenue deterioration or interest rate movements:

Scenario	Rev. Adj.	EBITDA	DSCR	Pass/Fail
Base Case	–	$8.61M	1.48×	**PASS**
Moderate Stress (–10%)	–10%	$7.40M	1.27×	**PASS**
Severe Stress (–20%)	–20%	$6.18M	1.06×	**FAIL**
Rate Shock (+200 bps)	–	$8.61M	1.31×	**PASS**
Combined Stress	–15%	$6.79M	1.01×	**FAIL**

Note: Severe and Combined Stress scenarios breach the 1.25× covenant floor. Lender may accelerate remediation provisions under the proposed credit agreement.

Collateral Analysis

Collateral Schedule

Asset	Appraised Value
Primary Facility (RE)	$7,200,000
CNC Machinery (Eq.)	$3,850,000
Secondary Building	$2,100,000
A/R (Assignment)	$5,890,000
Gross Collateral	**$19,040,000**
Advance Rate Applied	73%
Net Lending Base	**$13,899,200**

LTV: 61.3%

— Within Policy (Max 75%)

Collateral Notes

- Real estate appraisal dated Sep 2024; refresh required at Year 3.
- Equipment values subject to $1.2M annual depreciation.
- A/R assignment requires notice to Apex Aerospace.
- Environmental Phase I report pending (due Dec 2024).

Risk Assessment

Risk Factor Matrix

Risk Factor	Likelihood	Severity	Mitigant
Customer Concentration	Medium	High	LT contracts; IG-rated counterparties
Cyclical End-Markets	Medium	Medium	Diversified across 3 verticals
Key Person Risk (CEO)	Low	High	Life insurance policy; succession plan
Commodity Input Costs	High	Medium	60% inputs on fixed-price contracts
Interest Rate Exposure	Medium	Medium	Rate cap required per loan agreement
Environmental Liability	Low	High	Phase I pending; indemnification clause
Refinancing Risk	Low	Medium	Amortizing structure; 7-yr tenor
Covenant Breach (stress)	Low	High	Cure periods; cash sweep mechanism

Proposed Terms, Conditions & Covenants

Facility Terms

Facility Type	Senior Secured Term Loan
Commitment	$8,500,000
Tenor	84 Months (7 Years)
Base Rate	Daily SOFR
Margin	+ 285 bps
Effective Rate	≈8.15% (current)
Amortization	1% p.a. (Yr 1–3); 15% p.a. (Yr 4–7)
Balloon Payment	None (fully amortizing)
Prepayment Fee	2% / 1% / None (Yr 1/2/3+)
Commitment Fee	0.40% on undrawn
Origination Fee	1.00% ($85,000)
Closing Date	On or before Jan 15, 2025

Financial Covenants

- **DSCR:** $\geq 1.25\times$ (tested quarterly)
- **Total Leverage:** $\leq 4.5\times$ Total Debt/EBITDA
- **Min. Liquidity:** $\geq$ $1.5M unrestricted cash
- **Fixed Charge Coverage:** $\geq 1.15\times$
- **CapEx Limit:** $\leq$ $3.0M per annum w/o consent
- **Distributions:** Restricted if DSCR $< 1.35\times$
- **Senior Debt / TNW:** $\leq 2.5\times$

Conditions Precedent

- Environmental Phase I clearance
- Personal guarantee (James R. Halloway)
- Interest rate cap agreement (SOFR, 5.0% floor)
- Updated UCC lien searches (all jurisdictions)
- Executed subordination agreement w/ Nexa Capital

Sources & Uses of Funds

USES	Amount
CNC Machinery Acquisition	$5,200,000
Facility Expansion CapEx	$2,100,000
Installation & Commissioning	$480,000
Origination & Legal Fees	$185,000
Closing Costs & Reserves	$535,000
Total Uses	**$8,500,000**

SOURCES	Amount
MCB Term Loan (this facility)	$8,500,000
Borrower Equity Contribution	$0
Total Sources	**$8,500,000**

Credit Approval & Signatures

This Credit Analysis Report has been prepared by the Meridian Commercial Bank Credit Analysis Unit for internal underwriting purposes. The findings and recommendation herein are subject to final approval by the Senior Credit Committee. Approval of this facility does not constitute a binding commitment until a fully executed loan agreement is in place.

Sophie L. Chen	Marcus T. Wren	Patricia A. Drummond
Relationship Manager	Senior Credit Officer	Chief Credit Officer
Nov 14, 2024	Nov 14, 2024	______

Senior Credit Committee Disposition:

- ☐ Approved as Presented
- ☐ Approved with Modifications
- ☐ Declined
- ☐ Tabled – Additional Information Required

Modifications / Conditions (if any):

Committee Chair Signature:

Date:

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