

Bank-style credit memorandum

ILLUSTRATIVE SAMPLE — "Meridian Industrial Supply Co." is a fictional company. All figures, names, and conclusions are invented to demonstrate format and depth, and do not represent a real company or engagement.

Counterparty	Meridian Industrial Supply Co.	Purpose	Facility renewal + increase
Sector	Industrial distribution	Facility requested	USD 6.0M revolving
Framework	US GAAP (audited)	Memo ID	MEMO-8841-A / #a7f3

RECOMMENDATION		PROCEED WITH CONDITIONS	
Internal classification	DYNA Score / tier	Bias	Confidence
B / Watch	586 / Solid	Deteriorating	High

1. Executive summary and recommendation

Meridian Industrial Supply is a growing distribution business with an adequate but deteriorating credit profile. Over FY2023–FY2025 revenue grew 27% to USD 53.6M, but margins compressed, leverage rose (net debt/EBITDA 2.2x to 3.9x), and the cash conversion cycle lengthened by 29 days. The DYNA Score of 586 (Solid, deteriorating) reflects a company whose growth is outrunning its working-capital funding.

We recommend proceeding with the renewal and a limited increase, conditioned on structure that addresses the working-capital gap directly and installs covenants that arrest the leverage trend. The requested USD 6.0M revolver is supportable against the receivables and inventory base, but should be formula-governed rather than a clean-limit facility.

2. Company profile and analytical caveats

Meridian is an industrial-supply distributor operating on a receivables- and inventory-intensive model. Statements are audited US GAAP across three annual periods; confidence is high. No interim data was provided, so seasonality within the working-capital cycle is not directly observed. Figures are as reported; DYNA does not audit or verify authenticity.

3. Risk score and capacity

Capacity metric	Value	Reading
Sustainable debt (EBITDA × 3.5x)	USD 15.9M	Below current financial debt of 20.3M
Current financial debt	USD 20.3M	Above the conservative ceiling
DSCR (EBITDA basis)	1.28x	Above 1.25x floor, thin
Indicative revolver (formula)	USD 5.6–6.2M	85% AR + 50% eligible inventory

The counterparty is already at the upper edge of conservative debt capacity: total financial debt exceeds the 3.5x-EBITDA reference. This does not preclude the revolver — which is asset-backed and self-liquidating — but it argues strongly against clean-limit term debt and for formula governance and covenant discipline.

4. Concentration and counterparty exposure

Receivables have grown faster than revenue, and the aging profile should be confirmed (see verification points). No related-party balances were identified in the statements provided. The single most important concentration question — whether the receivables growth is broad-based or driven by a few slow-paying accounts — cannot be answered from the summary statements and is the first diligence item before drawdown.

5. Red flags and items requiring further disclosure

Receivables aging and top-10 client concentration. DSO up 27% on growing revenue — confirm collectability and concentration before increasing the limit.

Gross-margin bridge. Establish whether the 3.5-point compression is cost pass-through lag or permanent mix shift; it determines whether coverage stabilises or erodes further.

Debt maturity schedule. Financial debt up 55%; confirm near-term maturities, existing covenants, and refinancing exposure.

Inventory composition and obsolescence. DIO at 125 days; confirm no dead stock inflating the borrowing base.

6. Internal classification and credit recommendation

Classification: B / Watch, deteriorating bias. The company is performing and liquid, but the direction of leverage and working capital warrants active monitoring rather than a clean grade.

Recommended posture: proceed with conditions.

Element	Condition
Structure	Asset-backed revolver, formula-governed (85% eligible AR + 50% eligible inventory); avoid clean-limit term debt.
Collateral	First lien on receivables and inventory; assignment of the borrowing base.
Covenants	Net debt/EBITDA ceiling of 4.0x (stepping to 3.5x); interest coverage floor of 2.0x; distribution limit while above ceiling.
Monitoring	Monthly borrowing-base certificate; quarterly aging and covenant compliance; annual audited statements.
Downgrade triggers	Coverage below 2.0x, DSO beyond 100 days, or covenant breach prompt immediate review.

Upgrade path. Two periods of margin stabilisation, a reduction in net debt/EBITDA toward 3.0x, or an equity injection funding the working-capital gap would support an upgrade to a clean grade and a move to less restrictive structure.

7. Supporting analysis on file

Underlying DYNA deliverable	What it documents for this decision
Financial Statement Analysis	The full ratio set, trend analysis, and red-flag detail behind the capacity assessment above.
DYNA Credit Score	The deterministic 586 / Solid score and block-level composition supporting the classification.
Credit Analysis Model	The period-by-period model — statements, common-size, ratios, and dashboard — the figures are drawn from.

Each deliverable is independent and available on request as part of the engagement.

This credit memorandum is an analytical, decision-support document produced from user-provided data by a documented methodology. It is not a credit decision, a commitment to lend, or financial, legal, tax, or investment advice. The internal classification is DYNA's analytical grade, not a regulated credit rating and not the institution's own classification. The recommendation and any pricing remain the institution's responsibility. Dynamic Analysis LLC is not a bank, registered investment adviser, or rating agency.