Solon. CORPORATE FINANCE · DEBT ADVISORY

SPECIMEN CREDIT MEMORANDUM · FICTIONAL BORROWER · FORMAT DEMONSTRATION

Northstar Components Ltd

£14.6m senior secured refinancing and growth facilities · pro forma at 30 Sep 2025 · **Illustrative specimen · fictional borrower**

> **Credit view.** Proceed to lender soft-soundings. Base case: 1.65x opening net leverage against a 2.75x maximum, 7.11x FY2026 interest cover against a 3.00x minimum, every covenant test met at every date and net leverage at 0.50x by September 2028. The one thin year for cash is FY2026, the automation year, which the cash held from close and the delayed draw carry.

EXECUTIVE SUMMARY

- Northstar Components is a Greater Manchester manufacturer of precision-engineered components for industrial automation: the machined and assembled parts that OEMs design into their equipment (founder-owned, with a professional finance director and an independent chair).
- Purpose: refinance the incumbent bank debt, fund the automation programme and put a committed revolving facility in place for working-capital seasonality.
- Requested: £14.6m committed, comprising a £9.8m senior term loan drawn at close, a £2.1m delayed-draw growth capex facility drawn as the programme is spent and a £0.7m RCF undrawn at close, alongside £0.8m of retained senior debt and £1.2m of finance leases and HP carried over. Final maturity 30 September 2030; the senior facilities price at 3.30% over SONIA.
- Key metrics: pro forma net leverage 1.65x; FY2026 interest cover 7.11x; liquidity £3.1m pro forma against a £250k minimum, its lowest point in the base case.

SOURCES & USES AT CLOSE

USES

Repay incumbent term loan and overdraft	£7.8m
Retained senior debt (carried over)	£0.8m
Finance leases and HP (carried over)	£1.2m
Adviser, legal and lender fees	£0.4m
Cash to the balance sheet (automation programme)	£1.6m
Total uses	**£11.8m**

SOURCES

Senior term loan (drawn at close)	£9.8m
Retained senior debt	£0.8m
Finance leases and HP	£1.2m
Total sources	**£11.8m**

Source: integrated model (synthetic illustrative input). The £2.1m growth capex facility and the £0.7m RCF are undrawn at close.

CREDIT METRICS

YEAR TO 30 SEPTEMBER	FY2025A (PF)	FY2026F	FY2027F	FY2028F
Revenue	£36.4m	£38.4m	£40.3m	£42.1m
Covenant EBITDA	£5.7m	£6.3m	£6.8m	£7.2m
Net leverage	1.65x	1.43x	0.97x	0.50x
Interest cover	6.33x	7.11x	7.74x	9.16x
CFADS	£3.1m	£1.2m	£3.4m	£3.8m
Debt service cover (CFADS ÷ debt service)	2.72x	0.68x	1.60x	1.70x
Liquidity (cash plus undrawn RCF)	£3.1m	£3.4m	£4.7m	£6.0m

Source: integrated model (synthetic illustrative input), base case. FY2025A is actual trading with the balance sheet pro forma at 30 September 2025, as if the transaction had closed on that date.

DEBT SERVICE AND DELEVERAGING

- **FY2026 is the automation year.** Capex of £3.5m carries the automation programme, funded at close with the £1.6m held as cash, and the first £900k draw on the growth capex facility. CFADS is £1.2m against debt service of £1.8m (0.68x); the cash held from close and the delayed draw meet the gap, cash ends the year at £2.7m and the RCF stays undrawn.
- Cover recovers to 1.60x in FY2027 and 1.70x in FY2028 as capex falls to £1.7m and £1.6m.

- Gross debt falls from £11.8m to £8.9m by September 2028: £2.9m of scheduled amortisation and £1.4m of cash sweep on the term loan, £300k and £420k of amortisation on the retained debt and the leases, against £2.1m of growth draws. Net leverage falls from 1.65x to 0.50x. £5.5m of the term loan is outstanding at 30 September 2028 (0.77x that year's EBITDA), two years before final maturity.

COVENANT EBITDA BRIDGE (£'000)

COMPONENT	£'000
Reported EBITDA, year to 30 September 2025	5,100
+ Non-recurring costs added back	600
Covenant EBITDA (£5.7m)	**5,700**

Source: integrated model (synthetic illustrative input). The covenant definition does not cap the add-back, and the source data records it as non-recurring costs without itemisation, so the invoices and board minutes behind it are a diligence item.

COVENANT HEADROOM

TEST AT 30 SEPTEMBER	FY2026F	FY2027F	FY2028F
Net leverage (actual)	1.43x	0.97x	0.50x
Net leverage (maximum)	2.75x	2.50x	2.25x
Headroom (EBITDA decline to breach)	48.0%	61.3%	77.9%
Interest cover (actual)	7.11x	7.74x	9.16x
Interest cover (minimum)	3.00x	3.25x	3.50x
Liquidity (actual)	£3.4m	£4.7m	£6.0m
Liquidity (minimum)	£250k	£250k	£250k

Source: integrated model (synthetic illustrative input), base case. Ratios on the fiscal year; liquidity at the test date. Headroom is static: the fall in the year's covenant EBITDA that breaches the test with net debt unchanged.

SCENARIOS

SCENARIO	REVENUE VS BASE	EBITDA VS BASE	FY2026 NET LEVERAGE	LOWEST LIQUIDITY	FIRST BREACH
Base	0.0%	0.0%	1.43x	£3.4m	None
Downside	(10.0%)	(18.0%)	1.89x	£2.6m	None
Severe	(28.0%)	(48.0%)	3.36x	£896k	Net leverage, Sep 2026
Upside	5.0%	8.0%	1.27x	£3.7m	None

Source: integrated model (synthetic illustrative input), all scenarios. Stresses apply in every forecast year; lowest liquidity is at a forecast year end. Each scenario re-runs the model, so tax, interest, the sweep, the RCF and the covenants recalculate. The downside meets every test. The severe case is a deliberate over-stress: net leverage breaches at 30 September 2026 at 3.36x against 2.75x while liquidity holds above the minimum, so it is a covenant event needing a waiver or reset, not a liquidity event. On the base case, a 37.7% shortfall in forecast EBITDA is what breaches first, on net leverage at 30 September 2026.

RISKS & MITIGANTS

- **Customer concentration.** The top five OEMs take 58% of revenue. **Mitigant:** multi-year frameworks and qualification lead times make churn slow and visible; the top five average 11 years with the business. *Source: borrower profile (synthetic).*
- **Year-one debt service.** FY2026 CFADS covers debt service 0.68x. **Mitigant:** the year opens with £2.4m of cash and the £0.7m RCF undrawn, and the growth facility is drawn only as the capex is spent. *Source: integrated model (synthetic), base case.*
- **Capex execution.** The automation programme must land for the EBITDA margin to move from 14.0% to 17.0%. **Mitigant:** it is contracted cell by cell and can be phased if volumes weaken; the £1.6m tranche is funded at close and held as cash until spent. *Source: borrower profile and integrated model (synthetic).*
- **Input-cost pressure.** Metals and energy costs can move quickly. **Mitigant:** price-reset clauses on the key accounts; gross margin was 40.9% in the latest year against 38.6% two years earlier. *Source: borrower profile and integrated model (synthetic).*

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