

Résidé Études Investissement S.A.

Issuer	Issuer Rating	Outlook
Résidé Études Investissement S.A.	BBB+ Medium and Long Term	Stable
	Issue Rating	
	BBB+ Medium and Long Term	Stable

RATING RATIONALE

ARC Ratings, S.A. (ARC Ratings) affirms the “BBB+” rating, with stable outlook, assigned to the medium and long-term financial commitments of Résidé Études Investissement S.A. (Résidé Études) and to a bond loan in the maximum nominal amount of EUR 50 million. These rating actions are based on the company’s stronger cash flow generation even in the context of newly started operations of a higher number of residences benefiting from a large base of residences in cruise speed and from the results of development and investment property activities, an improvement in debt structure including the new investments financing debt of a long maturity (which lead to a temporary decline in debt coverage ratios), and forecasts of business expansion in promising markets, in France, which will improve the Group’s capital structure.

GROUP PROFILE

Résidé Études Investissement S.A. is the holding of a Group created in 1989 and headquartered in Paris, France. This Group initially mainly focused on the assisted residence for students (hence its name), it has since diversified and currently ranks among leaders in the three main assisted residence markets in France: for students; hotel or tourism residences (mainly city residences directed to a business clientele); and for non-disabled elderly people (since 2007, that has experienced a major boom).

The Group main activities are the real estate management operation, the real estate development and the creation of a property portfolio (investment property). At the end of June 2015 the Group managed 21,867 accommodations units (in the value of around EUR 2.1 billion), of which: 60% for students; 33% in hotel or tourism residences (aparthotels from 2 to 5 starts, in the majority of large French cities); and 6.1% for non-disabled elderly people (seniors) near the centre of cities. Its economic model allowed transforming a capital intensive activity into a model less capital intensive, it only owned six per cent of this total (in the value of EUR 122.0 million, as investment property), while the large majority of accommodations units is held by investors (nearly 20,000 private investors) and managed by the Group.

The main characteristics of the Group’s activities are the following: long term activity, where project development require 2.5 to 3 years on average and a minimum of 9 years signed lease with private investors (after the sale of the accommodations units to them); the residences’ marketing phase should be over a period of 18 months with delivery within 24 months from the start of construction; the search of tenants in order to obtain the best occupancy rate of the accommodations units, the maintenance and management of residences, where the Group is responsible for invoicing and collecting rents.

RATING DATE
5 October 2015

RATING VALIDITY
5 October 2016

INITIAL RATING
12 September 2013

LAST REVIEW
3 October 2014

NEXT REVIEW DATE
5 October 2016

PERIOD OF ANALYSIS
Historic: 2010 to June 2015
Forecast: 2015 to 2019

METHODOLOGY APPLIED
ARC Ratings Non Financial Corporations’ Rating Methodology available at www.arcratings.com

ARC CONTACT DETAILS

Isabel Fernandes
Lead Analyst
isabel.fernandes@arcratings.com

Emma-Jane Fulcher
Chief Ratings Officer & Panel Chairperson
emma.fulcher@arcratings.com

180 Piccadilly
London, W1J 9HF
UNITED KINGDOM
Tel: +44 (0) 203 282 7594
Website: www.arcratings.com

The consolidated turnover amounted to EUR 316 million in 2014, of which around 75% came from the real estate management operation.

Résidence Études Investissement continues to be entirely controlled by its Management: Mr. Philippe Nicolet, as President and founder, holding 75.4% of the share capital; Mr. Christian Verlain and Mr. Robert Vergès, each hold 8.7%. The remaining shareholding is distributed amongst remaining senior staff and treasury shares.

RÉSIDENTE ÉTUDES' KEY RATING DRIVERS ARE THE FOLLOWING:

- Experienced Management Board - Résidence Études Investissement is controlled by an experienced management board that has been in this business for over twenty years. Additionally, the shareholders' agreement allows the transfers among shareholders, hence ensuring the stability of the shareholder structure.
- The Strategy of the Company - The strategy of the Group is based on organic growth. The positive results, such as the student residence segment, and the results of development and investment property activities can offset losses arising from the launching of new residences, as happened in 2014. In addition, the Group has shown resilience and capacity to absorb losses from activities that are shut down. In 2014, in a context of entry into operation of 11 new residences the consolidated EBITDA amounted to EUR 22.8 million and the net profit to EUR 5.0 million.
- Business expansion forecasts - the Group's forecasts point to an increase of accommodation units under management to 25,050 in 2019 (+14.6% compared to June 2015, namely for seniors), through organic growth in France, and the reinforcement of investment property; note that the Group has the capacity to pilot its activity and, if necessary, to adjust the real state development of new plans and investments planned for own property;
- High demand for accommodation - there is a shortage of residential housing construction in France at the same time the country has no population growth problem and continues to receive international students (a double digit growth in number of international students last year) and to be a hub of international business. Tax on revenues from assisted residences has long benefited from tax advantages, which boosted this market;
- Conservative Dividend Distribution - the strategy of the Group and dividend distribution remains conservative, with approximately EUR 1.2 million a year. This allows the Group to strengthen its equity/assets ratio. In 2014 this ratio increase to 22.3% (1.2 points percentage points (pp) year-on-year). The group foresees the maintenance of this strategy, which will help to improve this ratio significantly.
- Debt Structure - note that most of the Group's debt is contracted in the medium and long term to finance investment property; this debt is preferably contracted a fixed interest rate, and, if not, the Group seeks customised solutions to cap or hedge the interest rates; short term debt fall to 10.9% (of total) at the end of 2014 (-1.7 pp year-on-year) and corresponds mainly to banks overdrafts to finance the real estate development (which will be repaid when the development plans will be delivered); The Group benefits from a large pool of banks to finance its operations, which should be extended; the net debt increase EUR 17.1 million in 2014, to EUR 135.3 million, in a context of investment of EUR 15.0 million in fixed assets, and the net working capital requirements variation was of EUR 12.5 million (due primarily the acquisition of two lands for future residences); in those circumstances there was a temporary decline in debt coverage ratios: the net financial debt / EBITDA ratio increase to 5.9 times in 2014, from 5.1 times, and the coverage ratio of borrowing costs by EBITDA decrease to 2.9 times, from 4.1 times. Furthermore, ultimately, the Group could dispose of part of its own property and operating assets if need in order to fulfil their financial commitments.

THE KEY CONSTRAINTS ON RÉSIDE ÉTUDES' CREDIT RATING ARE:

- Economic growth in France – in the recent past the French economy recorded low growth rates and unemployment rates the order of 10%; these evolutions and the taxation (taxes on income and consumption) have an impact on the household disposable income (which grew by 1.1% in 2014); a decline in the household disposable income will affect occupancy rates in residences and the gap between rents received from tenants and rents paid to investors; however the perspectives point to a recovery of the economy (+1.2% in this year and +1.5% in 2016) supported by an accommodative external environment, with a slowdown in fiscal consolidation (the general government balance will decline to -3.4% in 2016, that compare favourably with -4,0% in 2014), although unemployment is projected to decline only slowly; thus, the prospects point to the government will not reform the lodging aids system (note that a large number of students who are clients of Groupe Résidence Études are eligible to these aids; note that the Group gives high importance to maintaining over time the quality of the residences under management and offers a greater number of services in the face of competition.
- Changes in taxation - namely rise in VAT Rates, as observed in 2014 in the intermediate rate from 7% to 10% applicable to furnished rented units; The Group was unable to pass the fully up three points from VAT on rents, as a result, the main activity of the Group was affected, mainly the student residences sector.
- Changes in investment decision-making factors - this changes will be an impact in demand for the acquisition of new assisted residence units and lease renewals; taxation is one of the most important factors affecting investment, but the Group's products as eligible investments for professional or non professional furnished rental taxation, statute that is being long-lasting; note that the Group has a thorough insight of the relevant legal and tax frameworks; the Group presents large renovation rates of lease (around 96% in the oldest contrasts with more than 9 years) given that according to the contracts entered with investors, the Group has the right to renew the leases, which cannot be refused except if investors support the cost of an indemnity (such as the market value of goodwill, which can cover 2 to 3 years of rents); we highlight that the Group benefits from never having missed a payment to investors.
- Changes in the law - possible changes would result in an increase in maintenance, refurbishment and operation costs of assisted residences; according to the Group, recently not observed such changes and are not expected in the future; in addition, the establishment of a rent control system in large cities, although that does not apply to the residences under management by the Group could have an impact on rents in practice.
- Rising competition - the entrance of new market players and competition from existing players wanting to gain market share may be affecting return levels; note that the Group continue to be the second player in the assisted residence for students and in the urban hotel or tourism residences, and want to grow significantly on the assisted residence for non-disabled elderly people; it should be highlighted that the Group is able to attract partners for the real estate development (co-promotion), allowing him to share the risk of this phase and grow faster in the activity of real estate management, a long-term activity and a stable source to generate revenues. Note that the Group's residences are well localized, has generally a higher quality service to competition, and it is prudent in the choice of land for new locations in order to optimise profitability in the future.

CASH FLOW GENERATION CAPACITY AND RECENT DEVELOPMENTS

The Group's real estate management operation continued to grow through into on operation of new residences, mostly as a result of the real estate development activity (and the recovery of two residences in difficulties). The Group started the operation of 11 new residences in 2014 (1,290 accommodations units), including five

aparthotels (757), four residences for seniors (391) and two residences for students (142). In global terms, the Group has seen a 5.2% year-on-year growth in this portfolio, to 21,635 in 2014 under management. This trend continued in the first semester 2015 with the start of the operation of five new residences (two aparthotels, two for seniors and one for students).

In reverse, in mid-May 2015 the Group transferred the management of the first three residences with services for seniors (225 accommodations units) to the founder of the concept Girandière and previous manager of these three residences, who left the Group Résidence Études in that date. That operation was part of the exit agreement and representing no loss to the Group. This manager was the responsible for the entire Group's residences with services for seniors and was replaced in January 2015 (by Mr. Pierre Besnard, a person with large financial experience). Thus, after that, the number of residences for seniors managed by the Group decreased to 14, whilst 2 went into operation in 2008/2009, 4 in 2012, 3 in 2013, 4 in 2014 and one in April 2015.

The Group continues to manage a portfolio of residences for future ownership purposes, with no associated services (under brand name «Les Activiales»), resulting of development opportunities. The Group has an ongoing process to transfer the management of these residences to external rental agencies, that explained the decrease in the number of accommodations units under management in that assets category to 224 in 2014 (from 450 in 2013) and to 220 at end of June (in four residences).

At the end of June 2015, globally, the Group held the management of 183 residences with services (without considering the impact of the existence of mixed residences for students and aparthotels), of which 93 for students (with 13 098 accommodations units, around 60% of total), 72 aparthotels (with 7 210 accommodations units, 33% of total) and 14 for seniors (with 1 339 accommodations units, 6.1% of total).

The economic background and the rise in VAT rate affected occupancy rates of the residences management by the Group, in particularly of residences for students. In this context, and with the into operation of new residences (which take about two years to reach the occupation cruising speed) the average occupancy rates developed as follows:

- residences for students (marketed mainly under brand Les Estudines, and also under brand Study City) - slightly decreased to 88.4% in 2014, from 89.9% in 2013, and to 86.5% in the first semester 2015 (stable year-on-year); note that in the beginning of September 2015 the rental rhythm is in line with the previous year and that the Group do an active management of the rents in practice by knowing the rents of competitors; the Group will do some improvements in residences under the brand Study City to make them more attractive and more profitable;
- aparthotels residences (marketed under brand names Séjour & Affaires, Residhome and Relais Spa) evolutions in both directions, due mainly the operation of news residences; the occupancy rates was between 63% and around 71% in 2014 (with favourable evolution on mid and top range and unfavourable in the others) and between around 64% and 70% in the first semester 2015 (which mostly recorded an improvement, on a comparable basis); note, however, that the top range residences (Relais Spa de Val d'Europe and Relais Spa Roissy) development is at a lower pace than initially expected, so the Group will implement additional measures, in terms of quality and quantity of services provided, to speed it up;
- residences for seniors (marketed under brand name La Girandière) - successive increases, even in a context of a significant opening of residences, to 70.8% in 2014 and to around 78% in the first semester 2015 (with average occupancy rates higher than 90% in many residences open for a longer period); nonetheless, the Group has identified a problem of management with these residences and proceeded in January 2015, as referred above, to replace the director general responsible for this business segment and its management team. The Group is implementing a new operational structure, with segmentation of functions and

reinforcement of the commercial and operational areas, more appropriate to follow the development of this business.

In the second semester of 2015, Group Résidence Études started the operation of three new residences, as forecast, two for students (before the academic year) and one for non-disabled elderly people.

Revenues from real estate management operation reached EUR 238.5 million in 2014, an 9.2% year-on-year increase. In absolute terms, the main contributor to the growth was aparthotel segment (+16.6%, to EUR 115.7 million) followed by the residences for seniors segment (+37.2%, to EUR 18.8 million). Revenues from residences for students segment were quite stable in 2014, in amount of about EUR 94 million.

In the first semester of 2015 revenues from real estate management operation amounted to EUR 117.0 million, an increase of 6.8% year-on-year. Without the revenues from residences for seniors, given that information is not available, the amount of EUR 105.1 million is in line with the estimated value. Note that an earnings before taxes associated to these revenues was higher than estimated, although still negative (in EUR 0.3 million, due the losses of Relais Spa which more than absorbed the gains from remaining activities). In addition, the management operation of residences for seniors also suffered losses of EUR 2.3 million, due to operational problems, which the Group will be able to solve.

Concerning the activity of the real estate development, business continue to growth in 2014: reservations from full development, co-promotion and only marketing programs grew by 21.7% in terms of value (by 5.3% in terms of units, to 901); the number of notary deeds signed, related only full development and co-promotion, rose slightly by 0.8% in terms of value (and decrease by 2.7% in terms of units). This trend remained positive in the first half of 2015, as the value and the units of reservations rose year-on-year respectively by 7.8% (to EUR 75.6 million) and by 15.7% (to 531). The notary deeds signed also recorded a positive evolution, increase by 19.3% in units (to 284) and by 26.3% in value (to EUR 38.2 million), which is an indicator of increase in operation / management activity in the future.

Note that the Group has a common expertise of the whole real estate construction-development chain and delivered 4 programmes in 2014 (and the second part of other residence) and one in the first semester of 2015, which generate profits respectively of EUR 7.5 million and of EUR 0.5 million. Note that, due to the system of sale before completion ("Vente en État Futur d'Achèvement") the Group will receive the sale price in correlation with developments of the works.

At the end of June 2015 the Group had 22 development plans undergoing marketing and construction (including 7 in co-promotion), of which 14 for seniors and 5 for students. Note that the Group regularly monitors the development plans margins that are currently positive. In addition, at that date the Group are also in marketing three development plans for third parties.

Group's sales in real estate development declined by 24% in 2014, to EUR 68.2 million, due the application of the equity method of consolidation co-promotion programs (even for the 50%/50%, as them), since begins of 2014, and greater proportion of co-promotion programs. As a consequence there has been an increase in the contribution of the co-promotion programs to the consolidated earnings before taxes, to EUR 1.1 million in 2014, from EUR 0.3 million in 2013.

During the 2014 exercise the Group's property investment was widened mainly with: the opened of 51 social accommodation units for students in residence «Estudines François Arago» at Montreuil, recorded by EUR 5.7 million; and the beginning of the major renovation of a building in Marseille (Republic Street), for conversion into a residence for non-disabled elderly people (EUR 4.2 million). These assets will be further increased in the next years with the aforementioned residence in renovation and a residence in Paris for researchers and doctoral students (Paris Batignolles).

The turnover from real estate property was increase 14.4% in 2014, year-on-year, to EUR 10.4 million. In addition, an evaluation of investment property at fair value, made by an independent real estate expert, resulted in gains of EUR 1.1 million in this year.

On 10 September 2015 ARC Ratings met with senior management of Réside Études to carry out an onsite review as part of the analytical process. In this meeting was analysed the evolution of the business, the ongoing measures to overcome some already identified management problems and their expansion strategy. ARC considers they have a sound experience, a good maintenance and management of residences in order to attract and keep investors and tenants, and a sufficient systems and procedures to monitor the evolution of the business. In the next six months ARC will visit, on a sample base, the main residences under management by Group to confirm their conditions.

In consolidated terms the Group's turnover rose slightly in 2014, by 1.0% year-on-year, reaching EUR 316.4 million. In fact, the solid turnover growth in real estate management operation business and in property investment more than offsets the decrease in the real estate development (due the greater proportion of co-promotion programs and the application of a equity method in that programs). Thus, without deducting sector relations, the turnover of the management business increased their contribution, by 5.6 pp, to around 75% of 2014 consolidated turnover.

Note that in a context of newly started operation of a higher number of residences, which is characterized as deficient as still in tenants capture phase, the Group managed to generate an EBITDA of EUR 22.8 million (only -2,4% compared to 2013). The real estate management operation business accounted for 47% of consolidated EBITDA in 2014 (56% in 2013).

The EBITDAR is also worth noting, being a relevant indicator as far as Groupe Réside Études is concerned, since it measures EBITDA before taking into account rents paid to investors. In absolute terms EBITDAR rose from EUR 105.8 million in 2013 to EUR 113.4 million in 2014 (+7.2%). As a percentage of turnover, EBITDAR increased to 35.8% in 2014 (against 33.8% in 2013).

The increase of the amount of depreciation and amortisation (mainly related to fixed assets), as well as provisions, led to a greater decrease of EBIT (-14.7%), to EUR 17.6 million in 2014.

Financial results moved to EUR -7.4 million in 2014, from EUR -5.6 million in 2013, due to an increase in financial expenses (by approximately 50% reaching EUR 7.6 million). This evolution resulting from a higher financial debt does not concern the real estate development (since the Group capitalises financial expenses associated with this segment of business), namely the impact of an entire year of financial expenses from the bond loan issued in October 2013 and the interest from new loans to finance the reinforcement of the portfolio property. In this context the net financial expense / EBITDA coverage ratio decreased to 2.9 times, from 4.1 times.

Non current results in an amount of EUR -0.4 million in 2014 (net of taxes) derived from the construction activity developed by Compagnie de Bâtiment et de Maçonnerie SAS (CBM), which posted losses (net of taxes) of EUR 3.8 million in 2013. The Group in 2013 take a decision of shut down this activity, which will happen with the delivery of the last building in the second semester of 2015. The Group doesn't expect losses in 2015 from this shut down, given that at the end of 2014 there was a provision for this purpose in the financial statements (of EUR 0.6 million).

The effective tax rate, excluding discontinuing activities, increased to 46.9% in 2014 (from 23.1% in 2013 and 43.1% in 2012). Note that in 2013 income tax expense was reduced, namely as result of the extension of tax integration to the loss-making subsidiaries Relais Spa (with impact of EUR 2.1 million). In 2014, in a context of losses, there was a taxation of the activity from these subsidiaries (by EUR 0.3 million) and a temporary surcharge for achieving a high level of consolidated turnover.

Although, the Group has suffered from an unfavorable economic and fiscal environment, it has however managed to achieve a net profit of EUR 5.0 million in 2014 (EUR 7.8 million in 2013).

The earnings before taxes - excluding discontinuing activities - in 2014 were 14% higher than estimated in the business plan analysed in the previous Review Rating Report. This situation occurred in a background of:

- rise in earnings of the property investment business by approximately 71% (equivalent to EUR 1.3 million), excluding the valuation change in investment property (which was quite similar);
- lower losses in holding activity, by 46% (equivalent to EUR 2.1 million);
- lower earnings from the real estate management operation business by 26% (equivalent to EUR -1.2 million) - as a result of a deterioration in the student residences business earnings by 23% and in the residences for seniors by 162% (which showed losses greater than estimated, in amount of EUR 2.6 million); on the other hand, the earnings from aparthotels residences (including the Relais Spa) were more higher than estimated and reached the equilibrium (in part due to a non-current earning of EUR 0.9 million related to a tax rebate); note that the Relais Spa, which are still in launching phase, showed losses lower than estimated, as a result of the management change in Relais Spa de Val d'Europe residence in the beginning of the year); and
- lower earnings from the real estate development business - excluding CBM - by 18.0% (equivalent to EUR -1.1 million), in spite the margins was in line with the estimates.

As far as CBM is concerned the impact was a loss of -0.4 million in 2014 (net of taxes), which had not been previously estimated.

FINANCIAL POLICY

At the end of 2014 total consolidated assets of Group Résidence Études amounted to EUR 344.6 million, reducing by EUR 7.1 million over 2013, as result of down by EUR 17.3 million in current assets, partially offset by growth in non-current assets by EUR 10.2 million.

In 2014, the Group has had an increase in non-current assets mostly due the reinforcement of investment property, by EUR 11.5 million to EUR 126.2 million. Inventories increased to EUR 40.4 million in 2014 (EUR +7.1 million), related to development business (namely the acquisition of lands). Mainly due also the evolution of the development business the amount of trade accounts receivable reducing by EUR 13.3 million, to EUR 30.5 million in 2014, and the trade payables decreasing by EUR 8.4 million, to EUR 28.2 million.

The amount of deposits and cash reducing by EUR 19.5 million over 2013, to EUR 34.7 million by end 2014. Note that at the end of 2013 this amount was strongly inflated by cashing in the 4th quarter of the bond loan, so it was anticipated that there would be a decrease with the development of the business.

Compared to the business plan analysed in the previous Review Rating Report the Group presented a higher cash flow position of EUR 13.8 million (+57%, equivalent to EUR 5.0 million). However, the lands acquisition in an amount of EUR 13.7 million, not forecast in the previous business plan, leading to a higher variation of net working capital requirements (NWCR) of EUR 12.5 million. So, in a background of property investment activity of EUR 15.0 million (slightly low than the estimated) and payments of dividends in an amount of EUR 1.2 million (in line with estimated) the Group chose to utilise more deposits and cash instead increase the debt (as had predicted). Hence, in global terms, the Group's net financial debt increased in an amount of EUR 17.1 million, to EUR 135.3 million at the end of 2014 (only EUR 1.6 million above the estimated). This is the main reason for the net financial debt / EBITDA ratio increase to 5.9 times in 2014, from 5.1 times.

The Group's financial debts in the medium long term are quite stable at EUR 151.6 million in 2014. Thus, in a context of a decrease in the gross debt, by EUR 2.3 million, there was an improvement in debt structure, which is

adequate to the nature of the non-current assets. It should be noted that debt contracted in the medium long term have long-term maturity - generally 15 years for real estate leases, 30 years for social housing loans for student residences and 6 years for the EUR 44.0 million bond loan. At the end of 2014 EUR 82.9 million was payable between 1 and 5 years and EUR 68.7 million after 5 years.

GROUP RÉSIDE ÉTUDES - FINANCIALS AND RATIOS (THOUSAND EUROS)

	2010	2011	2012 Re	2013 Re	2014
TURNOVER	292 243	318 352	282 352	313 092	316 366
EBITDA	19 196	16 970	19 106	23 357	22 790
EBITDAR	n.av.	84 870	93 106	105 757	113 398
EBIT	16 042	17 025	16 534	20 661	17 628
FINANCIAL RESULT	(2 959)	(3 339)	(4 269)	(5 604)	(7 426)
NON-CURRENT RESULTS	0	0	(2 947)	(3 777)	(394)
NET PROFIT FOR THE YEAR	8 086	8 448	4 268	7 807	4 975
TOTAL ASSETS	264 841	299 439	299 044	351 741	344 601
NET WORKING CAPITAL (NWC)	27 232	34 916	34 420	62 402	58 600
NET WORKING CAP. REQUIREMENTS (NWCR)	31 262	34 847	20 428	31 086	43 584
NET CASH POSITION (NCP)	(4 030)	69	13 992	31 316	15 016
NET FINANCIAL DEBT	88 334	95 941	96 523	118 200	135 330
EBITDA as a % of Turnover	6,6%	5,3%	6,8%	7,5%	7,2%
EBITDAR as a % of Turnover	n.av.	26,7%	33,0%	33,8%	35,8%
OPERATING RETURN ON TURNOVER (%)	5,5%	5,3%	5,9%	6,6%	5,6%
Gross Cost of Borrowed Funds (%)	2,0%	1,9%	2,1%	2,0%	2,9%
NET RETURN ON TURNOVER (%)	2,8%	2,7%	1,5%	2,5%	1,6%
Payout Ratio (%)	15,0%	14,2%	28,1%	15,4%	24,1%
Coverage of Finance Borrowing Costs by EBITDA (x)	4,7	3,9	3,9	4,1	2,9
Net Financial Debt / EBITDA (x)	4,6	5,7	5,1	5,1	5,9
Equity (Incl. Minor. Int.) / Assets (%)	22,0%	21,7%	22,3%	21,1%	22,3%
Indebtedness (%)	78,0%	78,3%	77,7%	78,9%	77,7%
Financial Debt Struct. (S.T. Finan. Debt as a % of Total Financial Debt)	26,6%	25,8%	17,5%	12,6%	10,9%
Liquidity Risk	n.av.	0,0%	0,0%	0,0%	0,0%
Current Assets Ratio (Current Assets / Current Liabilities) (%)	124,9%	128,8%	134,4%	158,9%	163,4%
Acid Test Ratio ((Current Assets - Inventories) / Current Liabilities) (%)	102,2%	110,1%	107,8%	127,5%	119,7%

Notes:

Figures rounded.

n.av. = Non available.

(Re) 2012 with reclassifications in order to compare with 2013.

Accounts reclassified by ARC Ratings for analysis purposes.

Sources:

Groupe Réside Études Annual Reports.

The Group's short term debt (10.9% of total at the end of 2014) corresponds mainly to banks overdrafts to finance the real estate development, in an amount of EUR 11.4 million, which will be repaid when the development plans will be delivered. At the end of June 2015 the Group uses EUR 9.6 million of financial short-term credit for the development plans and has additional authorizations for EUR 35.6 million, which are not used.

Concerning the interest rates, as mentioned in the Rating Report, floating rate debt related to real estate development operations is not subject to interest rate hedging. The Group's medium and long term debt is preferably subject to fixed interest rate. For the floating rate medium and long term debt, the Group seeks customised solutions to cap or hedge these interest rates. The Group's financial accounts reflects the evaluation of the three swaps contracted at fair value, which determined a latent loss of EUR 2.3 million at the end of 2014 with an impact on equity, net of the tax effect, of EUR -1.5 million (against a positive effect of EUR 0.5 million in 2013).

The Group's consolidated equity increased 3.8% in 2014, reaching EUR 76.9 million. Thus, and given the decrease in the Group's consolidated assets, the equity / assets ratio improved to 22.3%, rose by 1.2 pp compared to 2013. Taking into account the importance of deposits and cash in the balance sheet, it is worth

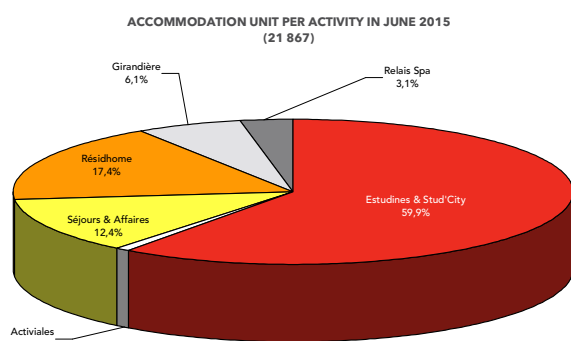
noting the equity / corrected assets ratio (where assets are deducted from cash and deposits and cash) quite stable in 2014 in 24.8%.

Finally, with regard to the insurance policies subscribed by the Group, no material changes were made in relation to what was described in the Rating Report.

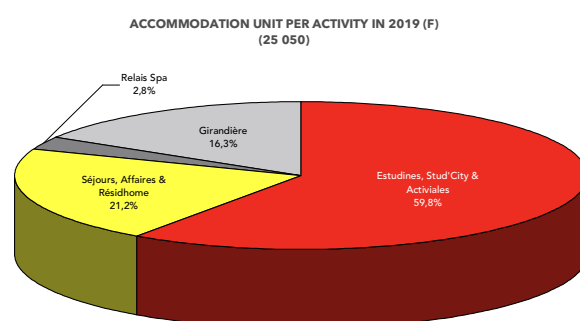
FORECASTS

Résidence Études Group updated its business plan for the period 2015-2019 (base scenario) which was analyzed by ARC Ratings in the previous Review Rating Report. This updated business plan has the following main differences compared with the one analyzed in that report:

- stock sales of EUR 64 million in 2015 and EUR 15 million in 2016 and in 2017; note that the target for accommodation units sale annually to particular investors remains conservative (800); such stocks sales will allow a future further growth on accommodation units under management;
- the Group plans to open 35 residences assisted between 2015 and 2019, mostly in 2015 (14), in 2016 (10) and in 2017 (8); 19 of these residences will be for seniors, 9 for students and 7 for aparthotels; thus in the three segments the Group expects reaching 25,050 accommodation units in operation and management at the end of 2019 (more 404, despite having ceased to manage the first three residences seniors in 2015); in terms of breakdown by segment the percentage of accommodation units in residences assisted for seniors will be lower, due this cession and lower development, in 2.0 pp (to 15.9% of the total); on the other hand, the percentage of accommodation units in aparthotels will be higher, in 1.9 pp (to 25.6% of the total, including the Relais Spa). Moreover, the Group continues to develop the operation of residences for students, where have a lot of experience, which represents the majority (58.4% of total); and
- an increase in new property investment of EUR +19.2 million (mainly a residence in Paris for researchers and doctoral students, Paris Batignolles, in an amount of EUR 15.4 million) to reach EUR 186.0 million at the end of 2019, and at the same time an investment in exploration assets (EUR 9.6 million), not previously forecast.



Source: Groupe Résidence Études.



Source: Groupe Résidence Études.

From the real estate development business the Groups expects a significant growth of earnings before taxes, which will be higher in the three year period 2015/2017 due to the major development of activity, that preceding an increase in management activity.

As regards the real estate management operation, the Group, prudently, considers that the negative impact of the increase in VAT in the rents received will remain, thus estimated a lower increase in revenues from residences for students and consequently lowers earnings before taxes in that activity (which represents an average reduction of about 28% in return rates). In the same direction, the management problem occurred in residences

for seniors, that the Group identified and are taking all measures to resolve by replacing the management team for a most appropriate operational and commercial structure, leading to forecasts more significant losses in 2015 and in 2016, followed by lowers earnings before taxes in following years, than in the previous business plan. Note that, in the opposite direction in the aparthotel segment the Group forecasts a least significant loss in 2015 (as happened in 2014) followed by positives earnings before taxes and better than in the previous business plan. The exception of this positive evolution is the Relais Spa, which the Group forecasts that will take more time to achieve the equilibrium (only in 2019), but that the Group intends to keep in operation and to strengthen the quality and quantity of services provided by them (a five stars hotels). So, together in the three segments of management operation activity the Group, compared to the previous business plan, expects a decrease of earnings before taxes in 2015 and a gradual recovery in subsequent years, in which the number of residences to start operation will decrease and the basis of residences on cruise phase will be extended.

GRUPE RÉSIDÉ ÉTUDES BASE SCENARIO FOR 2015-2019 PERIOD (MILLIONS EUROS)

	2014	2015 (F)	2016 (F)	2017 (F)	2018 (F)	2019 (F)
A) Earnings Before Taxes	9,8	13,6	18,9	23,3	26,0	30,6
which						
Management Operation Activities	3,3	0,8	5,5	10,1	12,8	17,3
which						
Student Residences	5,7	5,5	5,7	5,5	5,6	5,8
Apparthotels Residences	0,0	(0,8)	1,7	3,5	4,5	7,1
which "Relais Spa"	(3,2)	(3,9)	(2,5)	(1,3)	(0,2)	0,6
Seniors Residences	(2,6)	(4,3)	(2,4)	0,5	2,1	3,9
Real Estate Development Activities	4,7	11,7	12,4	11,7	10,9	10,7
Equity Investment Activities	4,3	3,6	3,5	4,1	4,9	5,2
Holding Activities	(2,5)	(2,6)	(2,5)	(2,6)	(2,5)	(2,6)
B) Taxes and Participation	(4,8)	(6,1)	(8,5)	(10,5)	(11,7)	(13,8)
C) Net Profit from Activities (A + B)	5,0	7,5	10,4	12,8	14,3	16,8
D) Net Depreciation	7,1	5,5	6,6	6,1	6,4	6,7
D1) Elimination of Variation in Fair Value	(1,1)	(1,0)	(1,0)	(1,0)	(1,0)	(1,1)
D2) Others	2,8	0,0	0,0	0,0	0,0	0,0
E) Cash Flow Position (C + D + D1 + D2)	13,8	12,0	16,0	17,9	19,6	22,5
F) Variation of NWCR - Operational Activities	(13,1)	(0,1)	3,0	1,7	0,8	0,6
G) Cash Flow Position Corrected by the Variation of NWCR (E + F)	0,8	11,9	19,0	19,7	20,4	23,1
H) Investment Activities	(15,0)	(30,8)	(22,3)	(22,7)	(19,3)	(12,2)
which						
Tangible and Exploration Assets	0,0	(3,2)	(7,0)	(7,8)	(9,4)	(8,6)
Investment Property	0,0	(22,0)	(13,2)	(11,1)	(8,2)	(0,2)
I) Dividends	(1,2)	(1,2)	(1,2)	(1,2)	(1,3)	(1,4)
J) Financing Needs before the Debt Service Capital (G + H + I)	(15,4)	(20,0)	(4,6)	(4,2)	(0,1)	9,5
L) The Debt Service Capital	(24,8)	(23,0)	(20,8)	(21,6)	(22,6)	(67,6)
which						
Medium and Long Term Financial Debt	(10,0)	(11,6)	(6,7)	(7,8)	(8,5)	(53,2)
which Bond Issue	0,0	0,0	0,0	0,0	0,0	(44,0)
which Others Loans	(10,0)	(11,6)	(6,7)	(7,8)	(8,5)	(9,2)
Potential - Short Term Financial Debt	(14,9)	(11,4)	(14,1)	(13,8)	(14,1)	(14,4)
M) New Debt	21,5	43,1	41,5	26,8	22,8	17,9
which						
Potential - Short Term Financial Debt Renewed	11,4	11,4	13,8	13,8	14,1	14,4
Additional Short Term Financial Debt	0,0	2,7	0,0	0,3	0,3	0,3
Medium and Long Term Financial Debt	10,0	29,0	27,7	12,7	8,5	3,2
which Others Loans	10,0	29,0	27,7	12,7	8,5	3,2
N) Variation in Gross Cash Position (J+L+M)	(18,8)	0,1	16,1	1,0	0,1	(40,3)
Summary:						
Gross Cash Position at the End of the Year	34,7	34,7	50,8	51,8	52,0	11,7
Short Term Financial Debt	11,4	14,1	13,8	14,1	14,4	14,7
Net Cash Position at the End of the Year	23,2	20,6	37,0	37,7	37,6	(3,0)
Medium and Long Term Financial Debt - Net Cash Position at the End of the Year	139,3	159,4	163,9	168,1	168,3	158,8

Notes:

(F) Forecast for 2015-2019.

Sources:

2015-2019 Groupe Résidé Études Business Plan.

The Group's property investment is projected to continue displaying earnings before taxes and growing from 2017, given that the Group estimates to open the residence for seniors in Marseille Republic in 2016 (the break even will be reached only in 2018).

Compared to the previous business plan, the Group has: higher cash flow position corrected by the NWCR variation (EUR +6.0 million or 6.8%); higher investments in EUR 28.9 million (or 36.9%); dividend payments more less in line (EUR -0.2 million or -3.1%). The combination of operational and investment activities and dividends will give rises in net financial debt, by EUR 20.0 million in 2015, by EUR 4.6 million in 2016, by EUR 4.2 million in 2017. The Group expects net financial debt stabilization in 2018, at EUR 168.3 million, and a reverse in 2019 with a reduction by EUR 9.5 million (including the payment of the bond loan of EUR 44.0 million). It is somewhat less favorable than that provided in the previous business plan, since, by their nature, property investment needs time to be profitable.

As far as the capital structure is concerned, the base scenario continue leads to a sharp rise in equity, considering that it will retain about 90% of future net results; this should result in a continuous enhancement of the Group's capital base and in achieving an equity / assets ratio (deducted of short term net financial debt, cyclical resources and deferred tax liabilities) of approximately 46.2% at the end of 2019 (13.7 percentage points more as against end-2014). Note that this ratio was in line with the estimated at the end of 2014. Moreover, the balance of medium and long term debt at the end of the year compared with the annual cash flow position suggests a quicker repayment of such debt, although at a lower pace than in previous business plan, down from 15.0 times in 2015 to 6.9 times in 2019 (against 11.8 times in 2014).

SENSITIVITY ANALYSIS

The Group's cash flow position remains sensitive to various factors associated with its activity level and its return, so in order to assess the impact on the Group of a smaller cash flow position, ARC Ratings has outlined a stress scenario taking into account the base scenario.

Starting from this base scenario, we have considered - all other things remaining equal - reductions in return rates and earnings before taxes in management / operation and real estate development related businesses: decrease by 0,7 pp in management of student residences (i.e. 13% less against the base scenario) and in apart-hotels management, except Relais Spa, (i.e. an average of 16% less against the base scenario); drop by 0.7 pp in management of senior residences only in 2019, which is the year this business will becomes significant (i.e. 16.6% less than in the base scenario); in the development business, decrease by 1.3 percentage points in carry-forward margins (i.e. 15.1% less than in the base scenario). Additionally, ARC Ratings considered the simultaneous occurrence of a 10% drop in revenues from the student residences, apart-hotels residences and seniors residences management businesses (in the years for which a decrease in return rates was also estimated).

Even in a scenario of simultaneous occurrence of falls in return and activity levels in these businesses, partially offset by possible tax savings, the Group would continue to show a cash flow position of approximately 86.8% of the cash flow position considered in the base scenario. Maintaining the distribution of dividends considered in the base scenario, all other things remaining equal, this scenario would result in a deterioration of the Group's cash position (EUR 11.6 million throughout the 2015-2019 period, including annual deteriorations by EUR 2.0 million and EUR 2.9 million). In these circumstances, following the repayment of the bond loan, gross cash position would be almost nil at the end of 2019. In this scenario, the Group would still be able to handle this stress scenario. However, in this case, according to the Group, its business management would be different. As a matter of fact, the Group may slowdown the development of new plans and reduces the net working capital requirements associated to the real estate development activity, which would immediately result in an increase in

cash position. The Group could also consider to sharply reduce its planned investments in investment property. The Group's cash position would immediately improve.

Finally and ultimately, the Group could dispose of part of its investment property and operation assets. At the end of 2014, the fair value exceeded the amount of respective debt in the following situations: its eight students social residences, by EUR 21.7 million; its residence for students Marseille République, by EUR 0.6 million; the Paris Opéra aparthotel, by EUR 8.7 million. In what concerns property partially recorded as investment property and operational property (recorded net of amortisation), the gap is estimated at EUR 15.1 million.

ISSUANCE CONDITIONALITY

The issue being rated by ARC is a bond loan in the maximum nominal amount of EUR 50 million in the form of a private placement, of which Résidence Études placed an amount of EUR 44 million at 23 October 2013. The main terms of this bond loan are the following: repayment at par following a period of 6 years; interest is payable annually, as from issue date at a fixed interest rate of 5.2% added of 1.25 percentage points / year in case the gearing ratio is equal to or higher than 0.85 times; if this ratio is equal to or higher than 1.00 times, it will trigger the early repayment of the loan; taking into account the consolidated financial statements at 31 December 2014, this ratio is 0.18 times; non subordinated and (subject to a negative pledge cause), without any security to be provided by Group Résidence Études, ranking *pari passu*, without any preference among themselves (subject to such exceptions as are from time to time mandatory under French law), ranking *pari passu* with any other unsubordinated and unsecured obligations, present or future, of Group Résidence Études; this clause does not apply to credits financing own property assets and development operations; early repayment of all or part of the bonds in case of change in control; and cross default.

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ARC Ratings, S.A.

Rua Luciano Cordeiro, 123 – R/C Esq.

1050-139 Lisbon

PORTUGAL

Phone: +351 213 041 110

Fax: +351 213 041 111

E-mail: arcratings@arcratings.com

Site: www.arcratings.com



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