

ARC Ratings downgrades the public rating assigned to Réside Études Investissement S.A. to “BB”, with Negative outlook, from “BBB-”, with Negative outlook

Lisbon, 30 November 2020 - ARC Ratings, S.A. (ARC) has downgraded the public medium and long-term issuer rating assigned to Réside Études Investissement S.A. to “BB”, with Negative outlook, from “BBB-”, with Negative outlook. This action is based on the worsening of the Group’s debt coverage ratios in 2019, due to its performance below expectations, and expected further deterioration of these ratios, particularly in 2020 and in 2021 due to the impact of Covid-19. The Group expects a negative EBITDA in 2020 and a low value in 2021, while its net financial debt will increase, despite the adjustment of its strategy. In addition, there remains uncertainty about the impact of the second wave of the pandemic on the Group’s ability to generate cash flow, hence the negative outlook. However, it is worth highlighting the improvement in the Group’s debt maturity profile in 2019 and that the Group faces no current liquidity pressure. While the Group’s expansion strategy is expected to improve its ability to generate EBITDA and therefore its debt coverage ratios this is unlikely to be evident until 2024. ARC will maintain its monitoring of the Group’s performance and its debt coverage ratios.

<u>ISSUER</u>	<u>RATING CLASS</u>	<u>RATING</u>	<u>OUTLOOK</u>	<u>NEXT REVIEW DATE</u>
Réside Études Investissement S.A.	Medium and Long-Term Issuer	BB	Negative	30 November 2021

ISSUER PROFILE

Réside Études Investissement S.A. is the holding company of a French Group created in 1989 and headquartered in Paris. The Group’s principal activities are real estate management and operation, real estate development and the creation of a property portfolio (including investment properties and operational assets) mainly related to aparthotels and residences for students and seniors. Most accommodation units managed by the Group are held by a mix of private and institutional investors, for whom the Group manages the properties (including invoicing and collecting rents) and with whom the Group seeks to create long-term relationships.

RATING RATIONALE

Réside Études Investissement’s key rating drivers are the following:

- Debt maturity profile - Most of the Group's debt, before IFRS 16, is contracted in the medium and long-term (mainly at fixed interest rates) to finance the property portfolio. Thus, its short-term debt is primarily connected to the real estate development activity and is being repaid from the proceeds of the sale of accommodation units.
- Experienced management board – The Group benefits from a committed experienced management board.
- Market position – A leading player in the residences for students, the most stable source of funds, and the

second largest player in the aparthotels and residences for seniors sectors.

- Growth strategy, particularly in France - There is good growth potential in France due to a shortage of residential housing construction in the country coinciding with an increasing number of seniors (i.e. those aged over 65).
- Conservative dividend distribution – The payout ratio remains conservative, with no forecasted payment of dividends in the 2020 – 2023 period, followed by an EUR 1.8 million distribution in 2024.

The key constraints on Réside Études Investissement’s credit rating are:

- The Group’s EBITDA decreased in 2019, before IFRS 16, to EUR 14.2 million (from EUR 30.5 million in 2018), that led to significantly worse debt coverage ratios. The net financial debt/EBITDA ratio in 2019, before IFRS 16, was 25.2x, while the coverage of net interest costs by EBITDA was 1.2x, against respectively 8.9x and 3.7x in 2018.
- Negative impact of Covid-19 pandemic - Despite the resilience shown by the residences for students and for seniors, the pandemic is having a significant negative impact on the aparthotel sector, hence the Group’s EBITDA. The additional loans granted to support its treasury during the pandemic increased its net financial debt, thus its debt metrics will worsen in 2020. In addition the deferral of its social and tax charges payments, expected to reach EUR 15.0 million by end of 2020, will become due in 2021.
- Economic growth in France - Due to the pandemic, it is expected that French Gross Domestic Product will fall by 9.8% in 2020 (and recover by 6.0% in 2021), while unemployment will rise to 8.9% in 2020 and reach 10.2% in 2021. The possible decline in households’ disposable income could affect occupancy rates in residences and private investors’ ability to invest, although institutional investors are expected to be less affected. Notwithstanding, the sovereign ratings assigned to France remain strong: “AA/Stable” by Standard and Poor’s, “AA/Negative” by Fitch Ratings and “Aa2/Stable” by Moody’s Investors Service.

KEY TIPPING POINTS	
<p><u>Positive Turning Points</u></p> <ul style="list-style-type: none"> • a faster than expected recovery post lockdown in France with a positive impact on the Group’s turnover and EBITDA; • the raising of equity to improve the Group’s financial ratios; and • a better than expected ramp-up of the assisted living sector (residences for seniors). 	<p><u>Negative Turning Points</u></p> <ul style="list-style-type: none"> • a larger than expected negative Covid-19 pandemic impact on EBITDA and net financial debt in case of a third lockdown in France; and • a substantially slower recovery than forecasted in the loss making residential segments that is not offset by other profitable activities.

RECENT DEVELOPMENTS AND OUTLOOK

The lockdown in France in the first wave of the Covid-19 pandemic (from 16th March to 10th July 2020) had a negative impact on all the Group’s activities. The Group’s benefited from a set of measures to support its treasury.

The most significant was EUR 83.2 million of loans guaranteed by the French state. A second national lockdown was imposed on 30th October 2020 for one month. In the Group's view, the negative impact of this is expected to be far lower than in the first wave.

Before the IFRS 16 impact, the Group's equity/assets ratio was 13.4% in 2019, which is deemed low, particularly in the Covid-19 context. The Group forecasts to continue its expansion strategy, despite being less ambitious than its previous plan.

RELATED CRITERIA AND RESEARCH

ARC Ratings' Corporate Entities Rating Methodology (March 2020)

Résidé Études Investissement S.A. Rating Review – Report (30 November 2020)

THIS DISCLOSURE IS FOR INFORMATION PURPOSES ONLY AND SHOULD BE READ IN CONJUNCTION WITH THE RESPECTIVE RATING REPORT

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This Review Report should be read together with initial Rating Report and with the subsequent Review reports.

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