

## RATING ACTION:

### ARC RATINGS DOWNGRADES RÉSIDE ÉTUDES'S RATING, CHANGING THE OUTLOOK TO DEVELOPING FROM NEGATIVE

Lisbon, 29 October 2021 - ARC Ratings, S.A. has downgraded the final long-term issuer public rating assigned to Réside Études Investissement S.A. to "BB-", from "BB", changing the outlook to developing from negative.

ISSUER	RATING CLASS	RATING	OUTLOOK	NEXT REVIEW DATE
Réside Études Investissement S.A.	Corporate Long-Term Issuer	BB-	Developing	31 October 2022

The downgrade of the rating is based fundamentally on the deeper than assumed in our previous review deterioration of the Group's profitability and debt metrics, increasing the vulnerability of its financial structure. The change of the outlook to developing, from negative, reflects the uncertainty and risk associated with the implementation of the Group's crucial strategic decisions: the continuation of its expansion in the most resilient segments and with the stronger fundamentals, in particular the residences for seniors on the French market, whose strong development should be financed by the equity contribution from a long-term minority partner at RES level. In addition, the Group expects a significant reduction in its exposure to the aparthotels segment. Furthermore, remain uncertainties regarding the evolution of the Covid-19 pandemic and its impacts. Our expectation is that the implementation of the two crucial steps mentioned before will establish the basis for the gradual inversion of the increased vulnerability trend, but, at this stage, the level of uncertainty and implementation risk is still too high. ARC will monitor the evolution of these aspects and its impact on the Group's debt metrics and financial structure.

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## ISSUER PROFILE

Résidé 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 with services for students and seniors. Most accommodation units managed by the Group were 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

Résidé Études Investissement S.A.'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 its 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.
- Focused growth strategy – The Group has decided to focus its growth for the coming decade in the two most resilient and with stronger fundamentals segments – residences for seniors and for students, in its home market, France, while significantly reducing its exposure to the aparthotels segment. This increased focus should lead to improved profitability and improved debt metrics.
- Experienced management board – The Group benefits from a committed and 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 residences for seniors. The Group is currently the third largest player in the aparthotels sectors, but it has taken the strategic decision to significantly reduce its exposure to this sector.
- Strong long-term fundamentals of the Group's two main business areas and favorable conditions for investors to support the development of these business areas.
- Higher resilience and good economic prospects for the French economy.
- Conservative Dividend Distribution – The payout ratio remains conservative, with no forecasted payment of dividends until 2025.

The key constraints on Résidé Études Investissement S.A.'s credit ratings are:

- Group's vulnerable financial structure– the Covid-19 pandemic had a significant negative impact on the Group's profitability and debt metrics in 2020 and 2021,

increasing the vulnerability of the Group's financial structure. The Group's 2021/2030 Business Plan aims to reduce this vulnerability through the focus on the two most resilient segments, reduction of the exposure to the apart-hotels segment and entry of a partner in the seniors segment.

- Uncertainty related with the evolution of the Covid-19 pandemic – The good progress in terms of vaccination leads us to believe that the worst of the Covid-19 pandemic is behind us and that any possible additional wave will have an impact significantly lower than the previous ones. Still, it is a factor of uncertainty and, as the past has proved, the Group is particularly exposed to its impact through its apart-hotels segment.

## RECENT DEVELOPMENTS AND OUTLOOK

A third national lockdown was imposed in April 2021 to help control the new significant Covid-19 wave. In this context, some residences apart-hotels were temporarily closed, though less than in the first lockdown, while the residences for students and for seniors remained open. The development activity and the marketing and sale of accommodation units to investors was little impacted. Similarly, to previous lockdowns, but with less relevance, the Group benefited from some government measures to support its treasury, given its cash flow generation capacity has been negatively impacted by the Covid-19.

Even in the Covid-19 context, the number of accommodation units managed by the Group continued to show an increasing trend. In total, the Group managed 216 residences in June 2021 (corresponding to 30,597 accommodation units), 102 of which for students, 60 for seniors and 54 apart-hotels.

The application of IFRS 16 related to operational leases had a significant accounting impact on the Group's financial statements, with no cash flow impact. Therefore, the following analysis is made before IFRS 16. Furthermore, the Group only prepares consolidated annual accounts (in interim periods it prepares accounts per business segment).

GROUP RÉSIDE ÉTUDES - FINANCIALS AND RATIOS (THOUSAND EUROS)					
	2016	2017	2018	IFRS 16 2019	IFRS 16 2020
TURNOVER	334,543	380,017	463,871	449,855	337,950
EBITDA	14,756	19,398	30,493	116,438	85,713
EBITDA, BEFORE IFRS 16	14,756	19,398	30,493	14,200	(41,555)
FINANCIAL COSTS NET OF FINANCIAL GAINS, BEFORE IFRS 16	8,393	7,559	8,140	11,840	12,096
Coverage of Net Interest Costs by EBITDA (x), BEFORE IFRS 16	1.8	2.6	3.7	1.2	(3.4)
TOTAL ASSETS	422,439	510,290	578,217	1,775,110	1,930,492
NET FINANCIAL DEBT, BEFORE IFRS 16	200,174	255,347	272,730	357,409	334,408
Net Financial Debt / EBITDA (x), BEFORE IFRS 16	13.6	13.2	8.9	25.2	-
Loan to Value Ratio - Property Portfolio (%)	55.8%	57.8%	53.0%	67.1%	65.4%
Equity (Incl. Minor. Int.) / Assets (%)	19.9%	17.3%	17.1%	9.7%	6.7%
Total Number of Accommodation Units	23,562	25,730	27,243	29,304	30,077

Notes: Figures rounded. Accounts reclassified by ARC Ratings for analysis purposes.

Sources: Groupe Réside Études Annual Reports.

In 2020 the Group's turnover decreased by 25.4% to EUR 362.4 million, whilst its EBITDA became significantly negative in EUR -41.5 million (vs EUR 14.2 million in 2019). The revenues from management business area, the main source of the Group's revenues, decreased by 23.1% in 2020, to EUR 275.3 million and recorded a modest increase of 2.9% in the 1H2021, to EUR 133.8 million. Revenues from apart-hotels decreased, particularly in 2020, while the residences for students showed more resilience and the residences for seniors revenue increased, boosted by the expansion in the number of units managed and RevPAR improvement.

In June 2021, the Group had 42 development plans undergoing marketing and construction, 29 of which for seniors, to increase the management business area in the coming years. As a result of the strategy of refocus the management activity in residences for students and for seniors, the launch of plans related to apart-hotels is suspended.

The Group's gross debt increased by 28.6% (or EUR 112.8 million, of which EUR 83.3 million PGE loans) in 2020, to EUR 533.3 million. Its short-term debt at the end of 2020 was EUR 38.6 million (EUR 54.8 million in 2019), which was covered 5.2x by cash and cash equivalents. Even considering the reduction of cash and cash equivalents in the 1H2021 the Group faces no current liquidity pressure.

EUR 247.7 million of its gross debt in 2020 was to finance its property portfolio contracted on a per asset basis, considering the expected revenues of the property. The LTV of the debt net of lessee advances on its property portfolio, considering its fair value, slightly improved to 65.4% at the end of 2020, a reasonable LTV ratio.

The Group's net financial debt decreased to EUR 334.4 million in 2020, (from EUR 357.4 million in 2019) and the net financial debt/EBITDA ratio was negative at -8.0x (vs 25.2x in 2019). The net financial debt/EBITDA ratio specific in the property portfolio business area improved to 16.1x, from 24.0x in 2019, a manageable leverage considering its maturity.

The coverage of net interest costs by EBITDA was negative (-3.4x) in 2020 due to the negative EBITDA (compared with 1.2x in 2019).

The Group's equity decreased in 2020 mainly as a result of losses in the unfavourable Covid-19 context. The equity/assets ratio decreased to 7.5% in 2020 (vs 13.4% in 2019) which is deemed low.

In August 2021, the Group updated its business plan for the 2021-2030 period, without taking account of the IFRS 16 impact, based on 2020 figures and developments in the 1H2021. The main guidelines of this long-term business plan are the continuation of the Group's expansion in the most resilient and with stronger long-term fundamentals segments, in particular the seniors segment, mainly in the French market, along with the significant reduction of its exposure to the apart-hotels segment (having already terminated the management of the Relais Spa Roissy at the end of March 2021).

For 2021 the Group forecasts a negative EBITDA, impacted by the significant negative EBITDA expected from the management activity, in particular from the aparthotels sector and residences for seniors partially offset by the expected positive EBITDA from other business areas. It should be noted that the forecasted negative EBITDA for 2021, compares with a positive, despite small, EBITDA in the Group's previous forecasts. The main reason is the unexpected new wave of Covid-19 at the beginning of 2021 and its consequences.

For the following years, starting in 2022, the Group forecasted positive and increasing values of EBITDA. To attain this goal, it will be crucial to conclude the projected divestment in the aparthotel sector. An improvement in the negative EBITDA from the management of residences for seniors is projected reaching a positive value from 2024 onwards, thanks to the increase of RevPAR that is expected as the number of residences with a longer duration in the portfolio increases, allowing higher occupation rates and also price updates.

The expansion strategy is expected to be financed through a mix of equity inflow, funds from divestment/focus of its activity and increase of gross debt (mainly to finance the development business area). The Group expects to maintain significant values of cash and cash equivalents throughout all of the forecasted period, even though a decrease trend is expected until 2025.

Even maintaining investment at low levels, an increase of the net financial debt is expected in 2021 and in 2023, with a decrease trend afterwards. Therefore, a worsening of its debt coverage ratios is expected in 2021. A gradual improvement in the following years is expected, particularly from 2023, to levels clearly better than the pre-pandemic levels. The net financial debt/EBITDA ratio specific to the property portfolio business area is forecasted to somewhat increase in 2021 and gradually improve until 2025. The Group expected a small improvement of the LTV ratio in 2021 followed by successive decreases until 2025, presenting a considerable comfort margin for the Group.

The Group's EBITDA and consequently its cash flow remain sensitive to various factors associated with its activity. In ARC's view there is some uncertainty related to the raise of additional equity and its divestment strategy, which if materialized in accordance with expectations will be positive factors, whilst the sensitivity related to a possible impact of new Covid-19 wave is now lower considering the vaccination rates, particularly in France. In an unfavourable context, the Group may slow down the development of new plans or, in case of need, sell some assets from its property portfolio. ARC will monitor the Group's EBITDA, its debt metrics and its financial structure.

## **RELATED CRITERIA AND RESEARCH**

ARC Ratings' Non-Financial Corporate Entities Rating Methodology (March 2021).

Résidé Études Investissement S.A Rating Review Report.

The rating was assigned by ARC Ratings, S.A. and endorsed by ARC Ratings (UK) Limited in accordance with Statutory Instrument 2019 n° 266 - The Credit Rating Agencies (Amendment etc.) (EU Exit).

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