Réside Études Investissement S.A.

Issuer	Issuer Rating	Outlook
Réside 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", with stable outlook assigned to the medium and long-term financial commitments of Réside Études Investissement S.A. (Réside Études) and to a bond loan with an outstanding amount presently of EUR 18.5 million, after a partial repayment in advance on 18 February 2016. This rating action is based on the Group's resilience in the context of losses arising from the launching of new residences, from the 5-star aparthotels and from the segment of residences for seniors. Its resilience allowed it to reach an EBITDA increase in 2017, and debt coverage ratios improvement, even in a framework of significant investment. ARC also considered the reinforcement of its financial and management team in a context of growth in the activity. Benefiting from the positive fundamentals of the French market, the Group continues to implement its strategy of growth and investment, which, given the long term nature of its activity, will lead to a temporary increase in its leverage. However, the Group forecasts successive improvements in its capacity to generate funds, as well as, in its debt coverage ratios, which ARC will monitor, that support the stable outlook.

GROUP PROFILE

Réside Études Investissement S.A. is the holding of a Group created in 1989 and headquartered in Paris, France. This Group initially focused mainly on assisted residences for students, but it has since diversified and currently ranks amongst the leaders in the three main assisted residence markets in France: for students; hotel or tourism residences (mainly city residences directed to business clientele); and for non-disabled elderly people (since 2007, this sector has experienced a major boom). The Group has demonstrated the ability to launch new residences annually, in the three segments, resuming in 2017 the trend of acceleration followed in previous years and slowed down in 2016 after the decline in tourist visits on the aftermath of the terrorist attacks. It benefits from a national presence, particularly in large urban areas. Its long-term main activities are the real estate management operation, the real estate development and the creation of a property portfolio.

The Group's main activities are real estate management operation, real estate development and the creation of a property portfolio (including investment property and operation assets). At the end of March 2018, the accommodations units managed by the Group increased to 25,849 (worth nearly EUR 2.5 billion), of which: 58.3% for students;

RATING DATE
16 August 2018

RATING VALIDITY
16 August 2019

INITIAL RATING
12 September 2013

LAST REVIEW
17 August 2017

NEXT REVIEW DATE
16 August 2019

PERIOD OF ANALYSIS
Historic: 2013 to May 2018
Forecast: 2018 to 2022

INFORMATION ANALYSED
Réside Études 2017 Annual Report
Financial Debt Details
Réside Études Interim Information
Peers Annual Reports

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

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30.5% in hotel or tourism residences (aparthotels from 2 to 5 stars, in most of the largest French cities); and 11.2% for non-disabled elderly people (seniors) near the centre of cities. This last segment is growing. Its economic model allowed the transformation of a capital-intensive activity into a model less capital intensive. In fact, the large majority of accommodation units managed by the Group are held by investors (approximately 19,400 private and institutional investors). The Group owned circa 5.5% of the total (worth EUR 161.4 million at the end of 2017, as investment property).

The main characteristics of the Group's activities are the following: long term activity, where project development requires 2.5 to 3 years on average and a minimum of 9 years signed leases with private and institutional investors (after the sale of the accommodation 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.

The Group's turnover exceeded EUR 380 million, 13.6% more than the 2016 figure. 77.2% of which came from the real estate management operation, the more regular and the fastest growing source of revenue.

RÉSIDE ÉTUDES' KEY RATING DRIVERS ARE THE FOLLOWING:

- Experienced Management Board - Réside Études Investissement is controlled by an experienced management board that has been in this business for close to three decades. The Group reinforced its financial and management team to better monitor the expansion of the activity. Additionally, the shareholders' agreement allows share transfers among shareholders, hence ensuring the stability of the shareholder structure.

- The Strategy of the Company - The strategy of the Group continues to be mainly based on organic growth, particularly in France, a market that presents significant growth prospects. The positive results from the investment property activity, the development activity, the student residence segment (a segment in which it has been present for a longer period and which is more stable) and the aparthotels segment in the mid-range (that benefited from the tourism recovery in the country), can offset losses arising from the launching of new residences (as happened in recent years) and overcome losses in the 5-star aparthotels and in the segment of residences for seniors, the latest segment in which the Group has entered and the fastest growing, which are taking more time to reach their equilibrium. Noteworthy was the Group's EBITDA improvement, to EUR 19.4 million in 2017 compared with EUR 14.8 million, as well as, the cash flow position increase, surpassing EUR 10 million.

- Business expansion forecasts - The Group's forecasts point to an increase of accommodation units under management to nearly 35,900 in 2022. This increase will be equivalent to circa 10,000 accommodation units, of which 60% are for seniors. In addition, the Group intends to strengthen its property portfolio, as in previous years, which functions as a reserve of value. Note that the Group has the capacity to pilot its activity and, if necessary, to adjust its investment strategy, as has occurred in the past.

- High demand for accommodation - There is a shortage of residential housing construction in France (with a population of 67.8 million), while at the same time, its population continues to grow (with an increased number of seniors aged over 65), it continues to receive international students and to be a hub of international business.

Investment in assisted residences benefits from the tax status of the furnished rental who continues to stimulate this market.

- Conservative Dividend Distribution - The dividend distribution policy remains conservative, with approximately EUR 1.2 million a year being distributed. The Group foresees the maintenance of this strategy.

- Debt Structure - Most of the Group's debt is contracted in the medium and long term (most at fixed interest rates) to finance the property portfolio. The debt contracted in the short term corresponds mainly to bank overdrafts to finance real estate development programs. Thus, the amount of this short-term debt is mainly a function of the number of development plans and their construction and commercialisation phase. At the end of 2017 nearly 20% of total debt (EUR 53.7 million) had a short term maturity. In 2017, in the context of significant investment (EUR 63.7 million) and development activity expansion, the Group's net financial debt increased by EUR 55.2 million, to EUR 255.3 million. Therefore, despite the EBITDA improvement the net financial debt / EBITDA stood at 13.2 times (in line with forecasts), while the coverage ratio of net interest costs by EBITDA improved to 2.6 times. The Group benefits from a large pool of banks to finance its operations and is working to increase its medium and long-term sources of funds and to boost the cash and deposits. Nevertheless, it forecasts improvement in these ratios. Ultimately, it could dispose of part of its property portfolio, instead of refinancing them.

THE KEY CONSTRAINTS ON RÉSIDE ÉTUDES' CREDIT RATING ARE:

- Economic growth in France - In July 2018, the International Monetary Fund (IMF) forecasts point to growth rates of 1.8% in 2018 and of 1.7% in 2019 for the French economy. In 2017, France experienced a growth of 2.3% exceeding the initial expectations of 1.5%. According to IMF, 2017 growth was supported by past and ongoing domestic reforms, accommodative monetary policy conditions, and a favourable global environment. The economic recovery boosted fiscal revenues and helped reduce the fiscal deficit to 2.6 percent of GDP, below the EDP limit of 3 percent. While still high, unemployment has declined, on the heels of solid employment growth. Inflation has risen, albeit from a low level. The outlook is positive, although risks are tilted to the downside. In the IMF opinion, French authorities should continue to push forward the reform agenda and take advantage of the positive outlook to address the remaining structural challenges and build up resilience to shocks. Regarding structural reforms, last year's labour market and tax reforms are expected to boost investment, employment, and growth. Therefore, IMF considers that with the ambitious pace of reforms France has now become a reform leader in Europe, but reforms need to be implemented resolutely, monitored carefully, and reinforced as needed. A potential decline in household disposable income (contrary to what occurred in 2015/2016) would affect occupancy rates in residences and the gap between rents received from tenants and rents paid to investors. It must be noted that the Group continues to give high importance to maintaining over time the quality of the residences and offer a larger number of services when compared with its competition, factors that help maintain higher occupancy rates.

- Changes in taxation - Namely a rise in VAT Rates, as observed in 2014, applicable to furnished rented units. The Group was unable to fully pass this VAT increase on to rents. As a result, the main activity of the Group was affected, mainly in the student residences sector.

- Changes in investment decision-making factors - These changes can have an impact on demand for the acquisition of new accommodation units and on lease renewals. Taxation is one of the most important factors affecting investment. However, the Group's products are eligible investments for professional or non-professional furnished rental taxation, a statute that has been long-lasting. Note that the Group has a thorough insight of the relevant legal and tax frameworks. It should be emphasized that the Group maintains large renovation rates for leases and benefits from never having missed a payment to investors. In addition, the contracts entered into with investors give the Group 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).
- Changes in the law - Possible changes that would result in an increase in maintenance, refurbishment and operation costs of assisted residences would be negative. 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 affect return levels. The Group is the leader in the assisted residence for students and continues to be the second player in the urban hotel or tourism residences. In a moment of significant growth in the seniors' market, the Group intends to keep pace and hold an important position in this segment of market. It contributes to the improvement of the concept of residences for seniors by offering a quality product. It should be highlighted that the Group is able to attract partners for the real estate development (co-promotion), allowing them to share the risk and grow faster in the activity of real estate management of residences, a long-term activity and a stable source of revenues. The marketing of accommodation units developed by third parties, which will be managed by the Group, also increased the main activity. In addition to the large private base of private investors, the Group wants to develop balanced marketing channels, by creating a durable relationship with the institutional investors. Note that the Group's residences are well localized and generally have a higher quality service than competition. In order to optimise profitability in the future, the Group is prudent in the choice of land for new locations and in the marketing phase.

SHAREHOLDERS AND GOVERNANCE

Réside Études Investissement presents a stable shareholder structure, based on its Management. Mr. Philippe Nicolet, as President and founder, holds 75.4% of the share capital. Mr. Christian Verlaine and Mr. Robert Vergès each hold 8.7%. The remaining shareholding is distributed amongst the remaining senior staff (as a result of the Group's policy to retain its key leading managers) and treasury shares (the later equivalent to 4.3% of the share capital).

The expansion of activity led the Group to strengthen its management team in order to better monitor its evolution and to take corrective measures on a timely basis when necessary. Therefore, after unifying the management of the three segments of residences in the middle of 2017 (with a view to further integrate residences for seniors, which already showed results), the Group strengthened its financial and management team by appointing Mr. Patrice Chaix, as Director. This director oversees all the Group's administrative and financial functions, benefiting from his experience in international industrial groups, including treasury, accounting and internal audit, financing and insurance, legal department, computing and the management control. To reinforce the team, in April 2018, the Group also hired Mr. Laurent Caudal, with international experience in big listed groups, as head of the management control division.

On the other hand, by signing assistance services and advice Conventions, for an indefinite period, the Group continues to benefit from the expertise and experience within the Group of Mr. Christian Verlaine (with approximately 22 years of experience), a non-executive director since February 2016, and of Mr. Jean-Philippe SUC (the previous financial director over 10 years), which became a Group's advisor since mid-2018.

CASH FLOW GENERATION CAPACITY AND RECENT DEVELOPMENTS

The Group's growth strategy led to the entry in operation of 17 new residences in 2017, equivalent to more than 2,000 accommodation units. This annual increase was the maximum reached by the Company. This represents the resumption of an upward trend followed in previous years, intentionally less significant in 2016 (8 new residences equivalent to 738 accommodation units). In order to balance the mix of residences under management by the Group, seven of the new residences were for students, six were residences for seniors and four are aparthotels.

In global, the portfolio under management by the Group increased nearly 9% in 2017, to 25,730, and circa of 3% in the first quarter of 2018, to 25,849 at the end of March 2018. In total, the Group holds the management of circa 170 residences with services.

The average occupancy rates of the residences under management by the Group improved, year-on-year, as follows:

- Residences for students (marketed mainly under the brand Les Estudines, and also under the brand Stud'City) - in the context of opening 7 new residences, and with some delay, the average occupancy rates fell to the level of 86% in 2017 (-4.3 percentage points (pp) compared with 2016), but recovered to the 92% level in the first quarter of 2018. It should be noted that in comparable terms there was stability at high occupancy levels.
- Aparthotels residences (marketed under the brand names Séjour & Affaires, Residhome, Relais Spa and Crowne Plaza) - despite the opening of four new residences in 2017, the occupancy rates improved in most of the range of residences in 2017 and in the first quarter of 2018 surpassing the 70% level (except on the 2-star residences and 4-star in the first quarter of 2018). It should be highlighted the significant improvement in both of top range residences occupancy rate, which took longer than forecasted to reach higher levels of occupation; in the largest residence, that of Roissy, with 455 accommodation units, ran under a franchise contract with Intercontinental Hotels Group (IHP) since July 2017 (marketed under the brand Crowne Plaza), the occupancy rate increased from 65% in 2017 to 71% in the first quarter of 2018. In Relais Spa Val d'Europe the occupancy rate improved to nearly 84% (benefiting from the commemoration of the 25th anniversary of Disneyland Paris Park), compared with 74% in 2016. At the end of March 2018 this occupancy rate stood at 75%; it is important to note that there was a recovery in tourism sector in France, which was heavily affected in 2016 by the effects of the terrorism events.
- Residences for seniors (marketed under the brands Les Girandières and Victoria Palazzo – the latter is the Group's luxury brand for this segment launched in 2017 with two residences in Nice and in Marseille) - in the

context of a significant opening of residences since 2015 (of which 6 in 2017 and 3 in the first quarter of 2018, reaching the barrier of 30 units), the occupancy rate stood at the 60% level in 2017 and improved to 68% level in the first quarter 2018. This improvement reflected the commitment of the Group in increasing quality of the product (a differentiating factor in the market) and greater professionalism in its management, including the strengthening of marketing area, in line with the standards followed in the more mature segments of residences above mentioned.

Globally, according to the surveys conducted, the degree of clients' satisfaction in the Group's residences under the brand names Séjour & Affaires and Residhome remained nearly 8 in 2017 (on a scale of 10), while in the top range of aparthotels (Relais Spa) it reached 8.1 (on a scale of 10). In the residences for seniors, the satisfaction surveys also point to a slight improvement in 2017, with 98% of respondents are satisfied or very satisfied.

It should be emphasized the Revenue Per Available Room (RevPAR) improvement achieved by the Group in the residences for seniors segment. The year-on-year improvement in the first quarter of 2018 was over 10%, benefiting both from the occupancy rate increase and from the Average Room Rates (ARR) rise, while in 2017 was modest due to the fall in the average occupancy rate (in a context of significant opening of residences). Likewise, in the aparthotels residences was also reached an improvement in the RevPAR indicator in 2017 and particularly in the first quarter of 2018 (in the last period of double digits). In the residences for students segment the RevPAR indicator slightly decreased 4% in 2017 and 2% in the first quarter of 2018, mainly reflecting the lower occupancy rate in a context of significant opening of residences in 2017.

In this favourable context, revenues from real estate management operation reached EUR 293.3 million in 2017, a 10.2% year-on-year increase, benefiting from improvement in the three segments. Highlighted, the 34.7% increase in the revenues from the residences for seniors, which accounted for nearly 13% of the total revenues from this more regular activity, and the 9.2% revenue rise from the aparthotel segment. The revenues from the residences for students, more stable, increased 5.3% in 2017.

The Group managed to maintain the growth trend of the revenues from real estate management and operation in the first quarter of 2018, reaching an 11% year-on-year growth, to EUR 63.5 million. The three business segments presented expansion, more significant in residences for seniors (by 35%), with greater dynamism, and in the aparthotels (by 11.4%, in all brands of residences, particularly in 3-star residences). The revenues from the residences for students, the more mature segment, presented a 6% year-on-year increase.

The Group's marketing activity of the real estate development benefited from the impulse given by the block sales strategy, in addition to the growth of the usual sale to private investors. In effect, in 2017, the reservations from full development, co-promotion and marketing programs for third parties rose by 20% in value, to EUR 232.7 million (equivalent to 1,453 accommodation units), of which circa 27% related to four letters of intent regarding the block sales of four residences for seniors (equivalent to 312 accommodation units). In 2016 these reservations included, for the first time, the sale of one residence for students in Paris (282 accommodation units) to an institutional investor, in an amount of EUR 45.6 million, i.e. equivalent to 23.5% of the total amount of reservations. On the other hand, the value of notary deeds signed increased by 11% (by 3% in terms of units), to EUR 186.5 million in 2017, mainly related to residences for seniors (76% of the total), developed in co-promotion. As usual, due to the system of sale before completion ("Vente en État Futur d'Achèvement" - VEFA) the Group will receive the sale price in correlation with developments of the building works. However, the programs in co-promotion, which have increased, particularly relative to residences for seniors, are recorded by the equity method, therefore without impact on Group's sales in real estate. Group's sales in real estate development increased by 31.7% in 2017, compared to 2016 figure, to EUR 70.7 million. If the proportional integration method were applied to these programs, instead of the equity method, the Group's sales in real estate development would have grown 18.4%. The contribution of the co-promotion programs to the consolidated earnings before taxes stabilised at EUR 2.9 million in 2017, being a source of funds generation for the Group.

The Group, benefiting from its expertise of the whole real estate construction-development chain, delivered 8 programmes in 2017 (6 in 2016), of which half in co-promotion. This generated profits for the Group of EUR 11.6 million (EUR 9.5 million in 2016). In the first quarter of 2018, the Group delivered one programme in co-promotion that generated EUR 0.7 million of profit.

At the end of May 2018, the Group had 39 development plans undergoing marketing and construction, including 17 in co-promotion, four related to the block sales and the marketing of three development plans for third parties (in which the Group will be the management entity). Approximately three-quarters of the total are residences for seniors, while 5 are residences for students and 4 are aparthotels, also including one property project in accession. The Group regularly controls the expected development plans margins. In the first five months of 2018, and related to these 39 development plans, the value of reservations from full development, co-promotion, marketing programs for third parties rose and block sales reached EUR 140.5 million, doubling the amount achieved in the same period of the previous year. Likewise, the value of notary deeds signed almost duplicated to EUR 93.5 million, also considering EUR 45.4 million regarding the block sale of three residences, whose letters of intent were signed in 2017 (having the sale of the first residence for seniors to an institutional investor occurred in early 2018). Finally, it should be noted that three real estate programs are under construction. It's about one residence for researchers and doctoral students in the Quartier de Batignolles, in Paris, one residence for students (Marseille Luminy III) and one residence for seniors (in Montigny-le-Bretonneux), all of them bought in VEFA for the Group's property investment. Once completed, these residences will be managed by the Group's management branch.

In the context of strengthening the Group’s property portfolio, including a selection of quality projects taking advantage of good market opportunities, the property portfolio value significantly increased (by EUR 52.1 million) in 2017, to EUR 248.4 million. Of this amount stands out the value of the investment property (into operation) of EUR 161.4 million, namely the Paris Opéra aparthotel (EUR 41.1 million), the residence for seniors Marseille République (EUR 25.4 million), which entered into operation in the fourth quarter of 2017, the residence for students Marseille République (EUR 15.3 million) and eight students social residences (EUR 65.6 million). This investment property portfolio is booked at the fair value determined by independent evaluations. It generated gains of EUR 6.2 million in 2017. The turnover from real estate property slightly increased year-on-year to EUR 9.0 million. On the other hand, the Group’s investment property portfolio in progress stood at EUR 43 million at the end of 2017, of which highlighted the residence for students Marseille Luminy III (EUR 15.2 million), the residence in Paris Batignolles (EUR 12.5 million) and the residence for seniors in Montigny-le-Bretonneux (EUR 9.7 million).

On 27 and 28 June 2018, ARC Ratings met with the board of directors and the senior management of Réside Études to discuss the Group’s performance and its strategy.

The Group's turnover reached the maximum of EUR 380 million in 2017, a 13.6% increase compared with the 2016 figure, of which 77.2% came from the real estate management operation, the more regular and increasing source of revenue. It should be noted that the Group's expansion of activity was coupled with an EBITDA margin improvement to 5.1%, from the minimum of 4.4% occurred in 2016 in particularly unfavourable conditions, allowing the Group to reach EUR 19.4 million of EBITDA (a significant 31% increase compared with the 2016 figure). The Group's three main activities are sources of funds.

The EBITDAR is also worth noting, being a relevant indicator of Réside Etudes Group activity, since it measures EBITDA before considering rents paid to investors. EBITDAR has been increasing and reached EUR 138.8 million in 2017.

On the other hand, Group's EBIT stood at EUR 15.9 million in 2017, close to 52% over the 2016 figure, benefiting from the EBITDA improvement and the high change in fair value of investment property, which more than offset the greater depreciation and amortisation amount related to the increase of the investment property (into operation).

In the context of investment, and greater dynamism of the development activity, with impact on debt, Group's financial results stood at EUR -7.6 million (slightly down on the 2016 figure). Therefore, the EBITDA improvement allowed an improvement in the EBITDA / net interest costs coverage ratio to 2.6 times in 2017, compared with 1.8 times in 2016 (approaching the 3 times level achieved earlier).

The consolidated earnings before taxes - excluding discontinuing activities and non-current results – stood at EUR 8.4 million in 2017 (i.e. a significant improvement compared with EUR 2.1 million in 2016). Similar to 2016, in 2017 the net profit from the discontinuing activities, regarding the Compagnie de Bâtiment et de Maçonnerie SAS, was positive, although of reduced expression. After income tax of EUR 2.3 million the consolidated net profit, after minority interests, surpassed the EUR 6 million in 2017, compared with EUR 4.6 million reached in 2016 in a context of EUR 2.2 million of tax income credit.

FINANCIAL POLICY

The Group's total assets increased 20.8% in 2017, surpassing the barrier of EUR 510 million. The reinforcement of the non-current assets, including the investment property, by EUR 44.4 million, as well as the other tangible fixed assets, by EUR 17 million, was the main driver for this increase. On the other hand, the expansion of the real estate development activity led to the increase of inventories (by EUR 9.2 million) and of trade receivables (by EUR 17.6 million), in the context of high utilisation of available cash and deposits.

The Group's cash flow position improved to EUR 10.2 million in 2017, compared with EUR 5.6 million achieved in 2016. It should be noted that in 2016 the cash flow position was penalized by the significant losses in the management of residences for seniors and less favourable conditions to develop the management of aparthotels. The cash flow position corrected by the variation of NWCR (which was not significant) stood at EUR 8.7 million at the end of 2017.

The further strengthening strategy of reinforcement of the property portfolio coupled with the increase of the development activity, to increase the management activity in the future, and the costs associated with the fast growth of the most recent segment of the residences for seniors led to a EUR 55.2 million increase in the net financial debt in 2017, to EUR 255.3 million. The Group continued to show ability to pilot the activity, having carried out less investment and managing the NWCR in order to control the debt increase, which fell short of the forecasted in 8% (equivalent to EUR -21.6 million). In the context of medium term investment (of EUR 63.7 million), which needs time to be profitable, the net financial debt / EBITDA ratio slightly improves to 13.2 times in 2017 (in line with forecasts and compared with 13.6 times in 2016). Based namely on significant growth prospects of EBITDA, the Group forecasts gradual improvement of this ratio (see Forecasts).

GROUP RÉSIDE ÉTUDES - FINANCIALS AND RATIOS (THOUSAND EUROS)

	2013 Re	2014	2015	2016	2017
TURNOVER	313,092	316,366	342,389	334,543	380,017
EBITDA	23,695	23,926	20,768	14,756	19,398
EBITDAR	106,095	114,534	117,568	123,756	138,838
EBIT	20,661	17,628	16,601	10,473	15,910
FINANCIAL RESULT	(5,604)	(7,426)	(6,582)	(8,393)	(7,559)
NON-CURRENT RESULTS	(3,777)	(394)	(2,402)	321	87
NET PROFIT (AFTER MINORITY INTERESTS)	7,807	4,975	5,178	4,569	6,090
TOTAL ASSETS	351,741	344,601	384,548	422,439	510,290
NET WORKING CAPITAL (NWC)	62,402	58,600	46,916	50,809	28,701
NET WORKING CAP. REQUIREMENTS (NWCR)	31,086	43,584	54,970	67,771	66,263
CASH FLOW POSITION	11,108	13,844	8,374	5,604	10,153
Cash Flow Position Corrected by the Variation of NWCR	(4,450)	783	(747)	(8,515)	8,742
NET CASH POSITION (NCP)	31,316	15,016	(8,054)	(16,962)	(37,562)
FINANCIAL DEBT	172,347	169,998	193,687	225,362	272,664
NET FINANCIAL DEBT	118,200	135,330	166,451	200,174	255,347
Contribution Margin (%)	26.7%	27.8%	26.5%	27.2%	27.9%
EBITDA Margin (%)	7.6%	7.6%	6.1%	4.4%	5.1%
EBITDAR Margin (%)	33.9%	36.2%	34.3%	37.0%	36.5%
Operating Return on Turnover (%)	6.6%	5.6%	4.8%	3.1%	4.2%
Gross Cost of Borrowed Funds (%)	2.0%	2.9%	2.3%	2.5%	1.8%
Net Return on Turnover (%)	2.5%	1.6%	1.5%	1.4%	1.6%
Payout Ratio (%)	15.4%	24.1%	23.2%	26.3%	19.7%
Coverage of Interest Costs by EBITDA (x)	4.2	3.1	3.0	1.7	2.5
Coverage of Net Interest Costs by EBITDA (x)	4.2	3.2	3.2	1.8	2.6
Net Financial Debt / EBITDA (x)	5.0	5.7	8.0	13.6	13.2
Equity (Incl. Minor. Int.) / Assets (%)	21.1%	22.3%	21.0%	19.9%	17.3%
NET GEARING (Net Debt to Equity and Minority Interests) (x)	1.6	1.8	2.1	2.4	2.9
Financial Debt Struc. (S.T. Finan. Debt as a % of Total Financial Debt)	12.6%	10.9%	17.6%	18.2%	19.7%
Liquidity Risk	0%	0%	100%	100%	100%
Current Assets Ratio	158.9%	163.4%	139.1%	138.6%	116.3%
Acid Test Ratio	127.5%	119.7%	103.0%	94.5%	78.1%

Notes:
Figures rounded.
(Re) 2013 with reclassifications in order to compare with 2014.
Accounts reclassified by ARC Ratings for analisys purposes.

Sources:
Groupe Réside Études Annual Reports.

The Group's medium long-term debt has a long-term maturity. At the end of 2017 the social housing loans for student residences, with 30 years maturity, amounted to EUR 37.3 million, while the real estate leases, generally with 15 years maturity, amounted to EUR 66.2 million. The bond loans amounted to EUR 70.7 million, of which

EUR 50 million issued on 18 February 2016, with a 7 years maturity (that pays an annual interest rate of 4.5%), and EUR 18.5 million regarding the outstanding amount of the bond loan issued on 23 October 2013 (after a partial repayment made in advance with the proceeds of the EUR 50 million bond loan), with a 6 years maturity, i.e. will mature on 23 October 2019, and pays an annual interest rate of 5.2%. In 2017, in the context of investment, the medium and long term debt increased by EUR 37.1 million, to EUR 229.2 million at the end of 2017. EUR 160.2 million of which was payable after 5 years, EUR 58.8 million was payable between 1 and 5 years and only 4.5%, equivalent to EUR 10.2 million, was due in 2018. In January of 2018 the Group obtained funding with 17-year maturity for the acquisition of one 4-star residence aparthotel in Marseille.

The Group's short-term debt at the end of 2017, equivalent to nearly 20% of total debt, amounted to EUR 53.7 million. As usual in the Group's activities, this debt was composed mainly of bank overdrafts that amounted to EUR 41.2 million, of which EUR 37.5 million to finance the real estate development programs, in addition to the mentioned portion of the medium and long-term debt that matures in the short term and EUR 2.2 million of accrued interest related to bond loans. The repayment of the bank overdrafts to finance the real estate development programs will be done with the sale in VEFA, whose receipt depends on the degree of completion of the project. It should be noted that the Group monitored regularly the evolution of these projects and expects to complete 10 residences in 2018 and 14 in 2019. Therefore, the amount of Group's cash and deposits at the end of 2017 (EUR 17.3 million) covered its short-term debt excluding the bank overdrafts to finance the real estate development programs.

Concerning the interest rates, the Group's medium and long-term debt is preferably subject to fixed interest rates. For the floating rate medium and long-term debt, the Group seeks customised solutions to cap or hedge these interest rates. The three swaps contracted by the Group at the end of 2017 are valued at their fair value in the Group's accounts. At the end of 2017 the latent loss related to these financial instruments amounted to EUR 2.1 million, with an impact on equity, net of the tax effect, of EUR -1.4 million. In June 2018 the Group contracted a fourth swap, with the initial notional value of EUR 10.5 million regarding the medium and long-term financing of one residence aparthotel in Marseille to reinforce its property portfolio, which provides for the payment of interest at the fixed rate (at the 1% level), and the receipt of interest at a floating rate (3-month Euribor). 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 equity (including the minority interests), considering the dividends to be distributed in the following year, which have been maintained at EUR 1.2 million, was reinforced by 5% in 2017, to EUR 88.5 million at the end of the year. However, in the context of significant medium term investment and acceleration of the real estate development activity, to reach a higher level of funds generation in the future, the equity / assets ratio stood at 17.3% at the end of 2017 (2.6 pp lower than at the end of 2016). Considering the importance of cash and deposits in the balance sheet, the equity / corrected assets ratio (where assets are deducted from these more liquid assets) stood near 18% at the end of 2017.

Within a framework of expansion of activity and strengthening of its property portfolio, the Group reinforces its insurance portfolio, having carried out a general review of its insurance portfolio in 2017.

FORECASTS

In June 2018, the Group updated its business plan for the period 2018-2022 (base scenario), based on 2017 figures. The growth strategy of the Group continues mainly in the French market. Opportunities prospection continues in neighbouring countries. The updated business plan continues to consider some residences abroad: in Belgium (three residences for students in Brussels, city where the Group's international development and operational structure is based), in Luxembourg (one business aparthotel residence) and in Switzerland (one residence for students).

The main assumptions for the Group's updated business plan are the following:

- Expansion of the number of accommodation units in operation and management by circa 10,000 (equivalent to 39%) to a total of nearly 35,900, through annual increases more significant in the 2019-2021 period (around 8% p.a.). The Group forecasts increase in its three business segments, particularly in accommodation units for seniors (more than tripling). This should translate into the opening of almost a hundred new residences, 64 of which for seniors (with greater use of co-promotion, most of them under the Les Girandières brand). This will allow the Group to reach a more diversified and balanced mix of accommodation units in operation and management by 2022, reaching nearly one quarter of the total for seniors, one quarter in aparthotels, and about half for students (benefiting from the Group's history in this business segment).
- The creation of a durable relationship with the institutional investors, allowing the Group to forecast a higher annual level of accommodation units' sales, to circa 1,600 p.a. (more than one third higher than the level achieved in 2017), of which 30% on average related to block sales to these investors (assuming the stabilisation of annual sales to particular investors at the current level of 1,100). It should be noted that, the Group seeks a balanced marketing of the programmes to both type of investors. The block sales present some comparative advantages.
- Reinforcement of the property portfolio by approximately EUR 190 million, of which EUR 121 million of operational assets, related to the residences expected to enter into operation, and EUR 71 million in investment property, taking into account four programs in progress (including a residence aparthotel in Luxembourg) and seven other projects. Regarding the fair value of investment property, the Group assumed a conservative perspective (only considered EUR 2.6 million of valuation in 2018), although it considers there is a potential reserve of value in the assets held that is not yet reflected in the accounts at the end of 2017.

The favourable inversion of birth curves in the mid-1990s in France, suggests that the activity of residences for students will enter an increasing phase. Thus, the Group expects a continuous and regular increase in demand in that segment of market over a long period, having forecasted a moderate annual growth in turnover (5% on average) and an improvement in the margin in the 2018-2020 period (+1.2 pp in 2020 compared to 2017).

In the aparthotels segment - excluding the Relais Spa residences (see below) and the Belval residence - the Group's perspectives point to an annual average growth in turnover of 5% and, in the context of 13 new residences entering in operation, an average margin decrease in the period 2018-2022 (-1.2 pp compared to 2017). The Group estimates that the Belval residence will generate positive results since the first year of activity (2019).

With regards to the biggest top range aparthotel, the Relais Spa in Roissy, the Group expects a 7% average turnover increase (particularly in 2018 and 2019) and to reach the equilibrium in 2022. Likewise, concerning the Relais Spa Val d'Europe, wherein the whole surrounding area is under development, creating a greater dynamism that the Group seeks to take advantage, namely through the reinforcement of the marketing area to promote the conference space of the aparthotel, the Group expected a 4% average increase of turnover, highlighting 9% in 2022 thanks to the 30 years of the Disneyland Paris Park. In this context, the Group expects a gradual operating improvement that allows it to reach the equilibrium in 2022.

GROUPE RÉSIDE ÉTUDES BASE SCENARIO FOR 2018-2022 PERIOD (MILLIONS EUROS)

	2017	2018 (F)	2019 (F)	2020 (F)	2021 (F)	2022 (F)
A) Earnings Before Taxes	**8.4**	**18.6**	**14.2**	**26.5**	**30.4**	**37.9**
which						
Management Operation Activities	(4.1)	1.2	5.7	8.9	12.1	17.8
which						
Student Residences	5.2	6.7	7.2	7.8	8.1	7.1
Apparthotels Residences	(1.1)	(1.2)	0.1	1.5	3.3	6.8
which "Relais Spa"	(6.2)	(5.8)	(4.4)	(3.5)	(2.2)	0.3
Seniors Residences	(8.1)	(4.3)	(1.6)	(0.4)	0.7	3.9
Real Estate Development Activities	4.7	10.7	12.4	13.3	13.1	14.3
Equity Investment Activities	10.0	8.9	(0.7)	6.5	7.3	8.0
Holding Activities	(2.1)	(2.1)	(3.1)	(2.1)	(2.1)	(2.1)
B) Taxes and Participation	**(2.3)**	**(7.4)**	**(5.6)**	**(9.2)**	**(10.1)**	**(12.0)**
C) Net Profit from Activities (A + B)	**6.0**	**11.3**	**8.6**	**17.3**	**20.3**	**25.9**
D) Net Depreciation	**9.3**	**11.0**	**12.3**	**13.9**	**15.8**	**18.1**
D1) Elimination of Variation in Fair Value	**(6.2)**	**(2.6)**	**0.0**	**0.0**	**0.0**	**0.0**
D2) Others (including CBM)	1.0	0.0	0.0	0.0	0.0	0.0
E) Cash Flow Position (C + D + D1 + D2)	**10.2**	**19.7**	**20.9**	**31.3**	**36.2**	**44.1**
F) Variation of NWCR - Operational Activities	**(1.4)**	**(10.4)**	**5.7**	**2.0**	**(0.2)**	**18.4**
G) Cash Flow Position Corrected by the Variation of NWCR (E + F)	**8.8**	**9.3**	**26.5**	**33.3**	**36.0**	**62.5**
H) Investment Activities	**(63.7)**	**(58.9)**	**(51.1)**	**(31.2)**	**(22.2)**	**(26.3)**
which						
Tangible and Exploration Assets	n.av.	(19.2)	(33.7)	(20.6)	(21.3)	(26.7)
Investment Property	n.av.	(40.3)	(18.0)	(11.2)	(1.5)	0.0
I) Dividends	**(1.1)**	**(1.2)**	**(1.2)**	**(1.2)**	**(1.7)**	**(2.0)**
Summary:						
Gross Cash Position at the End of the Year	17.3	20.3	70.6	74.0	77.6	96.4
Short Term Financial Debt	43.4	59.1	60.0	63.5	68.4	65.6
Medium and Long Term Financial Debt - Net Cash Position at the End of the Year	255.3	306.2	331.9	331.0	319.0	284.9
Coverage of Net Interest Costs by EBITDA (x)	**2.6**	**4.0**	**3.9**	**4.1**	**4.4**	**5.2**
Net Financial Debt / EBITDA (x)	**13.2**	**9.9**	**8.2**	**7.1**	**6.2**	**4.8**

Notes:
(F) Forecast for 2018-2022; n.av. = Non available.

Sources:
Groupe Réside Études Business Plan.

The French statistics point to a significant increase in the number of seniors aged 65 or more in the coming years. Given the lack of adequate housing for them and the improvement in disposable income, this represents a growth opportunity for the residences for seniors with services business segment. The Group intends to have an important position in this market segment, that is experiencing rapid growth and increased competition. On the other hand, the Group wants to contribute to the improvement of the concept of residences seniors by offering a quality product, as it did in the two more mature segments, with a positive impact on its results. The Group expects a significant number of residences for seniors entering in operation annually in the 2018-2022 period, with a limited offer of top range residences. Therefore, it expects to reinforce its presence with 9 new residences in 2018, 12 in 2019, 15 in 2020, 14 in 2021 and 14 in 2022. Considering a maturity improvement in the market and also the expected effects of the Group's increased experience in this segment, it forecasts an improvement in the occupancy rate of its residences for seniors (from the time of opening, which is key to profitability). Therefore, it is expected a significant turnover increase, at a 38.5% annual average rate in the 2018-2022 period, and a gradual reduction of losses, as the base of residences in cruise speed increases, to reach the equilibrium in 2022.

In the context of greater increase of the real estate development activity, that precedes an increase in management activity, the Groups expects significant growth of earnings before taxes from 2018 (more than duplicate the 2017 figure in 2018). Regarding the Group's property portfolio, it expects positive earnings before taxes (except in 2019, year of the EUR 100 million refinancing of its property portfolio), despite considering a lower level due to the entry into operation of new residences.

The Group’s development strategy is expected to lead to positive and growing annual cash flow position, summing EUR 152 million in the 2018-2022 period. In the context of greater increase of the real estate development activity, and increasing block sales, the Group only considered a positive NWCR variation, of EUR 10.4 million, in 2018 that it will need to finance. On the contrary, from 2019 to 2022 the expected NWCR variation will be negative (or almost nil in 2021), i.e. a source of funds for the Group, nearly EUR 26 million in accumulated terms.

In effect, the Group’s EBITDA is expected to reach higher levels, surpassing EUR 30 million in 2018 (that will represent a 59% improvement compared to the achieved in 2017), EUR 40 million in 2019, EUR 52 million in 2021 and will attain close to EUR 60 million in 2022.

In order to finance the expansion of activity, besides its generation of funds, and to boost the cash and deposits (allowing a conservative management of its debt and investment capacity) the Group expects, in addition to the bank overdrafts related to the development activity (in the EUR 40 million level) the following issues of debt over the 2018-2022 period:

- Renewal of the outstanding amount of EUR 18.5 million of the bond loan that matures in October 2019.
- Refinancing part of its investment property and operational assets, given that, globally, at the end of 2017 the loan to value (LTV) of the property portfolio stood at 58% level. The Group is preparing a syndicate long term loan in an amount of EUR 100 million. In the business plan this loan was considered in 2019, passing the LTV to the 70% level, which is expected to gradually improve to 65% in 2022.
- EUR 12 million of medium term loans, to be paid up to 2021, to allow a faster growth in the development activity in the residences for seniors.
- To anticipate the use of tax credit (Competitiveness and Employment Tax Credit (CICE)). In 2018 was considered EUR 7.5 million.

Therefore, taking advantage of these funding possibilities, the Group prepares to position itself at a higher level of debt, with the maximum forecast of EUR 405 million in 2020, and, at the same time, a higher cash level. The cash and deposits are expected to surpass the EUR 70 million level in 2019 and the EUR 96 million at the end of 2022.

In this context, the Group's net financial debt will increase in 2018, by EUR 50 million, and in 2019, by EUR 25.7 million, to the maximum of EUR 331.9 million at the end of 2019. It is expected the maintenance of the Group's net debt in 2020 and reductions in the following years to EUR 284.9 million at the end of 2022 (in a context of stabilisation of its investment portfolio).

In this context, in a conservative perspective, considering a stable low level of interest receivables (similar to 2017) the Group forecasted an increase in the net interest costs. However, it is expected that the forecasted improvement in the Group's EBITDA allow to improve the debt coverage ratios. The net financial debt / EBITDA ratio is expected to improve to below the 10 times level in 2018, to 8 times level in 2019, to 7 times level in 2020, 6 times level in 2021 and below the 5 times level in 2022. Likewise, regarding the net interest costs coverage the perspectives point to successive improvements to higher levels between 3.9 times and 5.2 times.

The Group forecasts the maintenance of a conservative dividends policy, retaining more than 90% of the future net results reinforcing its equity by 85% between the end of 2017 and the end of 2022 (expected to surpass the EUR 160 million level). In the context of significant investment and expansion of activity, the base scenario indicates some decline in the equity / assets ratio (deducted of cash, cyclical resources and deferred tax liabilities) in 2018 and in 2019 to 23% level (compared with 24% in 2017) and a gradual recovery from 2020 onwards, to 35% in 2022.

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, ARC Ratings has considered - all other things remaining equal - reductions by 1.0 pp in return rates in management / operation of residences for students from 2018 to 2022 (i.e. 17% less against the base scenario) and aparthotels, except Relais Spa and the Belval residence, from 2018 to 2022 (i.e. an average of 26% less against the base scenario). Additionally, ARC Ratings considered, in the years for which a decrease in return rates were estimated, the simultaneous occurrence of a 10% drop in revenues from these residences. The global impact in earnings before taxes from the management / operation of residences would be a reduction by EUR 17.5 million in the 2018-2022 period (i.e. 28% less than in the base scenario). In the real estate development business ARC Ratings considered a decrease of 10% in the main revenues from 2018 to 2022, which would generate an impact in earnings before taxes of EUR -25.4 million (i.e. 40% less than in the base scenario). In addition, in the equity investment activity ARC also considered a negative impact in earnings before taxes of EUR 5.4 million in accumulate terms (i.e. 18% less than in the base scenario).

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 nearly 80% 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 by EUR 31.1 million throughout the 2018-2022 period (including annual deteriorations between EUR 5.1 million and EUR 7.0 million). In these potentially less favourable conditions, the gross cash position would be around EUR 65 million at the end of 2022 (compared to EUR 96 million in the base case). However, in less favourable conditions to develop the activities, according to the Group, its management of business would be different. As a matter of fact, the Group may slowdown the development of new plans and reduce the NWCR 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, which would also have a positive impact on their cash position.

Finally, and ultimately, in need the Group could dispose of part of its investment property and operational assets, given that its book value exceeds the respective debt, particularly in the case of the eight student's social residences (EUR 28.3 million) and of the Paris Opéra aparthotel (EUR 23.7 million), instead of issuing the above-mentioned syndicate long term loan (EUR 100 million).

ISSUANCE CONDITIONALITY

The issue being rated by ARC Ratings is a bond loan, in the form of a private placement, of which Réside Études placed on 23 October 2013, with an outstanding amount presently of EUR 18.5 million (after a prepayment of EUR 25.5 million on 18 February 2016). 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 2017, this ratio is 0.67 times (i.e. close to 0.64 times reached at 31 December 2016); provision non subordinated and (subject to a negative pledge clause), without any guarantee to be provided by Group Réside 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 Reside 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.

Réside Études

Corporates Rating Report – Performance Review

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