RESIDE ÉTUDES INVESTISSEMENT S.A.

ARC Ratings, S.A. (ARC) 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
Réside Études Investissement S.A.	Corporate Long-Term Issuer	BB-	Developing

Rating Date	29 October 2021
Initial Rating	12 September 2013
Last Review	30 November 2020
Next Review Date	31 October 2022
Criteria Applied	ARC Ratings' Non-Financial Corporate Entities Rating Methodology

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.

The rating was assigned by ARC Ratings, S.A. and endorsed by ARC Ratings (UK) Limited in accordance with Statutory Instrument 2019 nº 266 - The Credit Rating Agencies (Amendment etc.) (EU Exit).

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GROUP PROFILE

Réside Études Investissement S.A. is the holding company of a French Group created in 1989 and headquartered in Paris. The company continues to present a stable shareholder structure.

The Group's principal activities are real estate management and operation (management), real estate development (development) and the creation of a property portfolio (including investment properties and operational assets) mainly related to aparthotels and residences with services (residences from now on) for students and non-disabled elderly people (seniors from now on).

The large majority (92.8%) of accommodation units managed and operated by the Group in December 2020 were held by a mix of private and institutional investors (21,716 investors, 2.9% more than at the end of 2019) for whom the Group manages the properties (including invoicing and collecting rents) and with whom the Group seeks to create long-term relationships. Thus, the application of International Financial Reporting Standard 16 (IFRS 16), for the first time in 2019, had a significant accounting impact, although without cash flow impact.

RÉSIDE ÉTUDES' 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 RÉSIDE ÉTUDES' CREDIT RATING 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 aparthotels 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 aparthotels segment.

KEY TIPPING POINTS

Positive Turning Points	Negative Turning Points
Triggers for a potential rating upgrade would include: • A faster than expected recovery of the Group's turnover and EBITDA; and • The raising of equity and/or divestment with positive impact on the reduction of the vulnerability of the Group's financial structure.	Triggers that could prompt a rating downgrade would include: • A slower than expected recovery of the Group's turnover and EBITDA, namely from further negative Covid-19 pandemic impact; and • Further deterioration or a slower than expected recovery of the Group's financial structure.

COVID-19 PANDEMIC:

As detailed in the Rating review report dated 30 November 2020, 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 second national lockdown imposed on 30th October 2020 for one month, had a negative impact far smaller than the first one. The impact was relatively more significant on the aparthotel sector though weaker than in the first lockdown. The Group benefited from a set of government measures to support its treasury during these lockdowns, including loans guaranteed by the French state (PGE), in the amount of EUR 83.3 million, with a 6-year maturity that will be repaid in equal annual instalments after one year's grace period. Other support measures included the partial lay-off of staff, the deferrals of EUR 6.7 million of loan instalments (including interests costs) and of EUR 22.0 million of social security and tax charges. Additionally, the Group partially suspended the rent payment to investors in the students and aparthotel sectors, and proposed plans for the regularization of this situation (total for students residences and partial for aparthotels).

A third national lockdown was imposed in April 2021 to help control the new significant Covid-19 wave. In this context, some residences aparthotels were temporarily closed (c. 14% of total accommodation units), 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. The rent payment to investors in the students and seniors residences was made regularly, as well as the payment of deferred rents from the first lockdown. The payment of rents to investors in aparthotels was only made to the ones that accepted the Group's proposition (pay only 40%, plus a variable component, in 2020-2021 years). The rate of acceptance of this proposition somewhat increased to 52.4% (vs 47% end of 2020), and to 50% regarding investors in Relais Spa Val d'Europe. Similarly, to previous lockdowns, but with less relevance, the Group benefited from some government measures to support its treasury, including:

– the partial lay-off of staff in the 1H2021 regarding staff in the management business area;
– the deferral of its social security charges in the 1H2021 (a 3 year plan to regularize it was established);
– EUR 0.8 million in aid from French state (solidarity fund).

The Group did not request new deferral of loan instalments, having exercised its option by requesting an additional 1-year grace period regarding the loans guaranteed by the French state in the first lockdown. Thus, its payment will start at the end of 2022.

It should be noted that France ranks well in terms of vaccination rate, compared to other countries, with c. 65% of the population fully vaccinated plus c. 9% of the population with the first dose in September 2021, thus seems better prepared to return to a new normal of activity.

CASH FLOW GENERATION CAPACITY

On 13 September 2021, ARC Ratings had a conference call with senior management of Réside Études Group to discuss the Group's performance in the Covid-19 context, its strategy and its business plan. All relevant information is included in this report.

OPERATIONAL PERFORMANCE BY ACTIVITY

The Group's cash flow generation capacity has been negatively impacted by the Covid-19 and the national lockdowns imposed to help control the pandemic. The main impact was felt in the management of aparthotels and the development activity (construction and sales to investors). All residences for students and for seniors remained open, showing resilience, while the aparthotels were partially closed (more significant in the first lockdown from 16th March to 10th July 2020).

Therefore, the Group's turnover decreased year-on-year in 2020, by 25.4% before IFRS 16 (or 24.9% with this accounting impact). The breakdown of the Group's turnover, before IFRS 16, is showed in the table below.

GROUP'S TURNOVER BREAKDOWN BY BUSINESS AREA (MILLION EUROS)

	2018	2019	2020
Management	327.2	358.0	275.3
Development	144.8	137.8	88.8
Property	10.6	13.6	17.7
Holding and not related to other business areas	28.2	31.1	32.8
Intergroup	(47.0)	(54.5)	(52.1)
Total	**463.9**	**485.9**	**362.4**

Sources: Groupe Réside Études.

MANAGEMENT BUSINESS AREA

Even in the Covid-19 context, the number of accommodation units managed by the Group continued to show an increasing trend, mainly as a result of ongoing developing programmes. The Group's growth strategy led to the opening of 8 new residences in 2020 (a slowdown compared with 18 in 2019) and 10 in the 1H2021, in addition to the acquisition of one hotel located at Réunion island in 2020. In total, the Group managed 216 residences in June 2021, 102 of which for students, 60 for seniors and 54 aparthotels. The residences for seniors have experienced a major boom, with 4 new residences in 2020 and 8 in the 1H2021. However, accommodation units for students still accounted for 54.8% of the total in June 2021, accommodation for seniors 18.0% and aparthotels 27.2%. The Group manages a mix of aparthotels, from 2-star to 4-star categories.

The average occupancy rates of the residences under management and operation by the Group evolved as indicated below:

– for students – slightly decrease y-o-y in 2020 (to 87.7%) and a modest decrease in the 1H2021 (to 80.4%) due to less foreign students, still a high occupancy rate;

– for seniors - improved to 67.8% in 2020 and stabilised in the 1H2021. The poor occupancy level of these residences is due to the significant number of residences opened in recent years that usually take time to achieve higher occupancy rates, in addition to the Covid- 19 impact in the marketing to potential users of residences in the first lockdown. The Group is working to open the residences with higher occupancy rates (and acceptable average rates);

– aparthotels (except Relais Spa) – significant decreases in 2020, due to restrictions on people's movement, which were more pronounced in the 4-star aparthotels to 27.8% (from 59.5% in 2019). In the 2-star and 3-star aparthotels the drop was to 52.2% and 47.1% (from c. 74% in both in 2019). The two Relais Spa aparthotels showed a drop to c. 30% in 2020 (from 77.2% in 2019), heavily affected by restrictions on flights and visits to the Disneyland Paris. Thus, the Group decided not to renew the management contracts of the Relais Spa Roissy, located close to the Charles de Gaulle airport, with 455 accommodation units, at the end of March 2021. In the 1H2021, year-on-year, there was some recovery in the average occupancy rate in the 2-star and 3-star aparthotels, to 58.6% and 45.0% respectively (compared with 45.9% and 40.2%), while in the 4-star aparthotels it continued to decrease, to 23.1%. The drop was more marked in the Relais Spa Val d'Europe aparthotel, located near Disneyland Paris, which reopened in mid-June 2021, after c. 7.5 months closed due to Covid-19 pandemic.

RÉSIDE ÉTUDES GROUP – BREAKDOWN OF THE NUMBER OF ACCOMMODATION UNITS MANAGED

	Dec. 2018	Dec. 2019	Dec. 2020	Jun. 2019	Jun. 2020	Jun. 2021
Total Number of Accommodation Units	**27,243**	**29,304**	**30,077**	**27,558**	**29,918**	**30,597**
Breakdown by segment:						
For Students	15,783	16,520	16,737	15,831	16,733	16,768
Aparthotels	7,884	8,280	8,442	7,955	8,451	8,329
For Seniors	3,576	4,504	4,898	3,772	4,734	5,500
For Students	57.9%	56.4%	55.6%	57.4%	55.9%	54.8%
Aparthotels	28.9%	28.3%	28.1%	28.9%	28.2%	27.2%
For Seniors	13.1%	15.4%	16.3%	13.7%	15.8%	18.0%

Sources: Réside Études annual Reports and interim information.

Regarding the Revenue Per Available Room (RevPAR), it should be noted that an improvement took place in the residences for seniors, as a result of the occupancy rate increase and better average room rate. The RevPAR in the residences for students recorded a very small decrease in 2020 and a modest decrease in the 1H2021. Conversely, a large decrease (c. -46%, without considering the Relais Spa aparthotels) occurred in the aparthotels in 2020, while stabilised in the 1H2021, in the Covid-19 pandemic context.

The revenues from management business area, which results from the average occupancy rates of the residences under management and its RevPAR, the main source of the Group's revenues (c. 76.0% of total turnover before IFRS 16, compared with 73.7% in 2019), exhibited the following evolution:

– decreased by 23.1% in 2020, to EUR 275.3 million. Revenues from aparthotels (except Relais Spa) decreased by 47.1%, while revenues from Relais Spa aparthotels, the most impacted by Covid-19 pandemic, fell by 61.8%. The residences for students showed more resilience, but, even so, revenues decreased by 10.1%. In opposite, in the residences for seniors the increase was 15.7%, boosted by the 8.7% expansion in the number of units managed and RevPAR improvement; and

- recorded a modest increase of 2.9% in the 1H2021, to EUR 133.8 million, mainly resulting from: a 23.0% increase from residences for seniors (to EUR 46.0 million), that partially offset a small decrease from residences for students (to EUR 51.5 million) and 9.1% decrease from aparthotels (to EUR 35.0 million), due to the Covid-19 negative impact that led to close c. 14% of total aparthotels in the 1Q2021.

Development Business Area

In this business area, real estate sales are recorded according to the progress accounting rule by applying to the value of signed sales (through notary deed) an amount equal to the rate of progress of the works. The Group's sales in this business area (not counting the programmes in co-promotion that are recorded by the equity method) decreased by 38.2% in 2020, to EUR 73.5 million. In fact, there was a delay in the launching of new projects and the temporary shutdown of ongoing projects due to the lockdown in the 1H2020. However, the average delay in residences deliveries was 3 months. Conversely, there was a year-on-year increase of 68.0% in real estate sales in 1H2021, to EUR 28.4 million (due to the impact of first lockdown in the 1H2020).

In June 2021, the Group had 42 development plans undergoing marketing and construction, 29 of which for seniors (i.e. 69% of total), 8 for students and 5 aparthotels. In addition, two residences for students are under construction which were bought for the Group's property investment. The purpose of the development plans is 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 aparthotels is suspended.

Property Business Area

The Group’s property portfolio comprises investment property (residences in exploitation) and exploitation assets (including residences for seniors, common spaces of several residences and investment property in progress) which are being managed by the Group. Until 2019 its exploitation assets were recorded at cost net of depreciation, while its investment property was recorded at the fair value determined by four independent evaluations from well know entities. In 2020, following the International Accounting Standard 16 and to better reflect its market value, the Group took the decision to also record its exploitation assets (except in progress assets) at its fair value calculated by third parties, which had a positive impact of EUR 23.1 million in the value of assets and on equity.

Therefore, the Group’s property portfolio value increased to EUR 370.8 million in 2020, from EUR 327.2 million in 2019 (EUR 338.6 million if we consider its market value), comprising:

- EUR 219.4 million of investment property (EUR 213.4 million in 2019). In the Covid-19 context, it generated losses of EUR -6.2 million in 2020 (against a gain of EUR 5.0 million in 2019), mainly related to the aparthotel Paris Opéra located in Paris, one of the French regions most negatively impacted by the pandemic. Thus, the increase was due to the completion and entering into operation of an aparthotel located in Luxembourg; and

- EUR 151.4 million of exploitation assets, of which EUR 26.6 million in progress. Without considering the revaluation impact before mentioned, the exploration assets increased by EUR 26.7 million in 2020, because of assets acquisition, comprising a 65% stake in an aparthotel located in Réunion island, an overseas French department, for EUR 8.9 million (with an impact of EUR 5.1 million in the Group's net financial debt and EUR 4.9 million of goodwill), and common spaces of several residences mainly for seniors.

Globally the market value of the Group's property portfolio increased by 9.5% in 2020, to EUR 370.8 million.

The turnover from the property portfolio (rentals received from the management side of the Group) increased by 30.4% in 2020, to EUR 17.7 million, and by 9.5% in 1H2021, to EUR 9.2 million (mainly due to the increase of assets).

2020 CONSOLIDATED FINANCIAL STATEMENTS

The Group only prepares annual financial statements. The 2020 audit report presented one qualification regarding the application of an amendment to the IFRS-16, which was only published by the end of March 2021. This amendment is related to the extension by one year (i.e. until June 2022) of the application of a previous amendment approved in May 2020 allowing rent waivers negotiated with lessors only related to Covid-19 pandemic to be recognized immediately through the income statement. Thus, the 2020 consolidated income statement includes renunciation to rents relating to fiscal years 2020 and 2021, of EUR 9.2 million and EUR 9.4 million respectively (corresponding to 60% of rental income contracts for these years regarding owners who have accepted the Group's proposition).

OPERATIONAL PERFORMANCE

The application of IFRS 16 related to operational leases (long-term contracts with investors allowing Réside Études to manage the accommodation units held by them) had a significant accounting impact on the Group's financial statements as shown in the table below (with no cash flow impact).

GROUP RÉSIDE ÉTUDES - IFRS 16 IMPACT ON SPECIFIC ACCOUNTS ITEMS (MILLION EUROS)

	2019	2020
Profit and Loss:		
Turnover	(36.1)	(24.4)
EBITDA	102.2	127.3
EBIT	30.0	31.2
Interest Costs	44.1	46.9
Net Profit	(10.6)	(11.8)
Balance Sheet:		
Rights of use of Accomodation Units	1,081.0	1,106.2
Total Assets (Non-Current Assets)	1,084.5	1,113.6
Equity	80.0	68.3
Medium - Long Term Debt	931.6	963.5
Short - Term Debt	72.9	81.9
Total Debt	1,004.5	1,045.4

Source: Réside Études 2019 /2020 Annual Report.

The main operational evolutions in 2020 were the following:

- The Group's turnover decreased by 24.9% in 2020, to EUR 338.0 million, while its EBITDA fell by 26.4% to EUR 85.7 million, leading to a small decrease of its EBITDA margin to 25.4% (from 25.9%);
- Before IFRS 16, its 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). Thus, its EBITDA margin was negative (of -11.5%), compared with a positive, despite small, EBITDA margin in 2019 of 2.9%. It should be noted that, before IFRS 16, the 2020 EBITDA was slightly less negative than forecasted; and
- Due to the Group's decision to maintain the rents payment related to its property portfolio, i.e. supporting the Covid-19 impact by the management business area, the EBITDA from the property business area, before IRS 16, was EUR 15.1 million (EUR 9.5 million in 2019). The EBITDA from the management business area was heavily penalized by the Covid-19 pandemic, deteriorating to EUR -55.9 million (from EUR -6.6 million in 2019). The aparthotels segment was the most affected, due to restrictions to movement of people, generating EUR-29.3 million EBITDA (compared with EUR 1.1 million in 2019, which in turn was already being impacted by the poor results of the Relais spa aparthotels). Furthermore, the impact of opening a considerable number of residences for seniors (that generate negative EBITDA in the first years) was compounded by the additional costs of maintaining the safety of seniors and workers in the Covid-19 context. Nonetheless, in 2020 the Group reinforced its marketing teams for assisted living residences in order to reach a higher occupancy rate when opening residences and shorten the time to reach the break-even occupancy rate, which is bearing fruits. The EBITDA from residences for students shown some resilience but decreased to EUR 3.4 million in 2020, from EUR 7.1 million in 2019. The EBITDA from the development business area had no relevance, compared with EUR 6.7 million in 2019. Overall, a headquarter costs cutting programme started to be implemented in 2020 to limit the increase of these costs.

INTEREST COSTS AND COVERAGE RATIO

The Group's financial costs net of financial gains increased 5.4%, to EUR 59.0 million, in 2020, mainly due to the IFRS 16 impact (which increased to EUR 46.9 million, from EUR 44.1 million, as shown in the table above). Without the IFRS 16 impact there was a 2.2% increase of its net financial costs, despite the increase of debt in the 4Q2020 to support the Group's treasury in the Covid-19 context and to finance the reinforcement of its property portfolio.

Globally, the coverage of net interest costs by EBITDA decreased to 1.5x in 2020, from 2.1x in 2019. Before IFRS 16 this coverage would be negative (-3.4x) due to the negative EBITDA (compared with 1.2x in 2019). It should be noted that most of the Group's net interest cost is related to the debt to finance its property portfolio (EUR 6.9 million in 2020, vs EUR 7.2 million in 2019, considering the data provided by the Group), which are covered by the EBITDA generated by this portfolio (improving to 2.2x in 2020, from 1.3x in 2019). The net interest costs related to the Group's remaining financial debt increased by 11.0% to EUR 5.2 million in 2020. Despite the EBITDA from other Group's business areas was negative, as aforementioned, the payment of the net interest costs related to other debt (the part that was not deferred) was ensured by the PGE loans obtained with the guarantee of the French government to support the Group's treasury.

GROUP RÉSIDE ÉTUDES - FINANCIALS AND RATIOS I/II (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)
EBIT	10,473	15,910	21,857	32,694	(30,912)
FINANCIAL COSTS NET OF FINANCIAL GAINS	8,393	7,559	8,140	55,981	58,997
FINANCIAL COSTS NET OF FINANCIAL GAINS, BEFORE IFRS 16	8,393	7,559	8,140	11,840	12,096
NET PROFIT	4,621	6,106	11,789	(17,282)	(67,504)
CASH FLOW POSITION	5,604	10,153	16,944	61,399	29,136
EBITDA Margin (%)	4.4%	5.1%	6.6%	25.9%	25.4%
Net Return on Turnover (%)	1.4%	1.6%	2.5%	(3.8%)	(20.0%)
Payout Ratio (%)	26.3%	19.7%	15.3%	0.0%	0.0%
Coverage of Net Interest Costs by EBITDA (x)	1.8	2.6	3.7	2.1	1.5
Coverage of Net Interest Costs by EBITDA (x), BEFORE IFRS 16	1.8	2.6	3.7	1.2	(3.4)

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

Sources: Groupe Réside Études Annual Reports.

NET PROFIT

The consolidated earnings before taxes got worse in 2020, to EUR -89.9 million, compared with EUR -23.3 million in 2019. Before IFRS 16, it would be EUR -78.1 million, vs EUR -8.0 million in 2019. Due to the saving of income taxes, its net profit was EUR -67.5 million, compared with EUR -17.3 million in 2019 (EUR -55.7 million before IFRS 16, compared with EUR -6.7 million in 2019).

FINANCIAL POLICY:

ASSETS AND LIABILITIES

The Group's total assets increased by 8.8% in 2020, equivalent to EUR 155.4 million, to EUR 1,930.5 million at the end of 2020.

In addition to the IFRS impact (change of EUR 29.1 million in non-current assets), this increase primarily reflects:

- the reinforcement of cash and cash equivalents by EUR 135.8 million to EUR 198.9 million, benefiting of the measures to support its treasury in the Covid-19 context. Its cash and cash equivalents were also boosted by a new securitisation of receivables of EUR 30.0 million in December;
- the reinforcement of its property portfolio by EUR 43.6 million, as mentioned before;
- in opposite, the decrease of inventories and accounts receivables, globally by EUR -29.9 million, related to the low level of its development activity (and aparthotels in the case of accounts receivables), and of regularization accounts and other assets of a social and fiscal nature (c. EUR 24.4 million). The doubtful accounts receivables increased to EUR 4.5million, equivalent to 9.8% of total (compared with EUR 3.7 million in 2019 or 6.5% of total), which are 100% covered by allowances.

GROUP RÉSIDE ÉTUDES - FINANCIALS AND RATIOS II/II (THOUSAND EUROS)

	2016	2017	2018	IFRS 16 2019	IFRS 16 2020
TOTAL ASSETS	422,439	510,290	578,217	1,775,110	1,930,492
NET WORKING CAP. REQUIREMENTS (NWCR)	67,771	66,263	57,250	72,392	(38,262)
NET FINANCIAL DEBT	200,174	255,347	272,730	1,361,881	1,379,794
NET FINANCIAL DEBT, BEFORE IFRS 16	200,174	255,347	272,730	357,409	334,408
Net Financial Debt / EBITDA (x)	13.6	13.2	8.9	11.7	16.1
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%
Liquidity Risk	100.0%	100.0%	100.0%	100.0%	0.0%
Current Assets Ratio	138.6%	116.3%	117.4%	102.8%	112.3%
Acid Test Ratio	94.5%	78.1%	93.1%	82.5%	100.7%

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

Sources: Groupe Réside Études Annual Reports.

Cash and cash equivalents decreased in the 1H2021 by EUR 73.0 million mainly reflecting the payment of rents to investors deferred in 2020 (c. EUR 32 million), the negative cash flow from operations (EUR -25.0 million) due to a new Covid-19 wave, the debt service (c. EUR 14 million) and a small investment.

In 2020 before IFRS 16 impact the cash flow position, i.e. before the working capital requirement change, was EUR -52.2 million, worsening compared with EUR -1.2 million in 2019. Globally, including some exceptional measures in the Covid-19 context, the Group's working capital change was positive in EUR 140.4 million (vs EUR -11.5 million in 2019). In addition, in the unforeseen adverse context the Group reduced its investment by 50.2% compared to the 2019 figure, to EUR 33.2 million in 2020 (EUR 22.7 million of which to boost its property portfolio).

FINANCING, COVERAGE OF DEBT BY EBITDA, LIQUIDITY, AND INTEREST RISK

Group's gross debt of EUR 1,578.7 million at the end of 2020 comprised:

- EUR 1,045.4 million (EUR 1,004.5 million in 2019) - recorded due to IFRS 16 (92.2% of which maturing at medium-long term); and
- EUR 533.3 million related to the Group's activity, with impact on cash, which increased by 28.6% (or EUR 112.8 million), mainly because the EUR 83.3 million PGE loans with French State guarantee, EUR 17.3 million of additional debt to finance its property portfolio and EUR 4.9 million regarding the second tranche of a bond issued in 2019. These EUR 533.3 million include the following:
    - EUR 454.5 million - contracted at medium and long-term (vs EUR 355.3 million in 2019), including bank loans, bonds, PGE loans, and mortgage loans and financial leases to finance its fixed assets, namely its property portfolio. This debt has a long-term maturity, which has been improved in 2019, thus only 4.3% was due in the short-term (equivalent to EUR 19.7 million), while 43.1% maturing up to 5 years (including EUR 50.0 million of a bond maturing in 2023); and the remaining 52.5% maturing at more than 5 years;
    - EUR 60.0 million - securitisation of receivables to diversify its sources of funding. EUR 30.0 million of which was issued in 2018 with a 3 years maturity (which may be extended and the Group intends to extend it), and EUR 30.0 million issued in 2020 that will mature in 2023; and
    - EUR 18.9 million - bank overdrafts (EUR 35.2 million in 2019).

Therefore, the Group's 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.

Given the Group's main activities its gross debt, excluding the IFRS 16 impact and the securitisation of receivables, can be breakdown in three categories, considering its purpose:

- To finance its property portfolio - EUR 247.7 million in 2020 vs EUR 232.8 million in 2019 (or EUR 242.5 million vs EUR 227.2 million net of lessee advances) contracted on a per asset basis, considering the expected revenues of the property (rents from the management entity, which belongs to the Group). 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 (from 67.1% at the end of 2019), a reasonable LTV ratio. In 2021 the Group paid in advance the debt contracted to finance the exploitation assets in the Relais Spa Roissy (EUR 1.2 million net of lessee advances), due to the end of the management contract of this aparthotel in March 2021. The Group is looking for an exchange agreement with investors to offset the rents unpaid (regarding investors that did not accept the Group proposal to reduce rents) related with these assets;

- To finance the development business area – EUR 18.9 million in 2020 (bank overdrafts, above mentioned). Considering the cash and cash equivalents of the subsidiaries that operates in this business area, the net debt decreased to EUR 12.1 million (from EUR 41.4 million in 2019) due to the slowdown of activity. Usually, the repayment of this debt will be made from progress payments received due to the system of sale of accommodation units before completion ("Ventes en l'état future d'achèvement" - VEFA); and

- To finance capex in fixed assets not included in its property portfolio and other generic debt – EUR 203.8 million in 2020 (vs EUR 114.3 million in 2019), namely bonds and the PGE loans. Therefore, its service of debt is strictly linked to the Group's EBITDA.

Before IFRS 16 impact the Group's net financial debt decreased to EUR 334.4 million in 2020, from EUR 357.4 million in 2019. After the IFRS 16 the Group's net financial debt reached EUR 1,379.8 million in 2020, compared with EUR 1,361.9 million in 2019.

Before IFRS 16 impact the net financial debt/EBITDA ratio was negative of -8.0x, due to the negative EBITDA, compared with 25.2x in 2019. Considering the data provided by the Group, 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. It should be noted that the LTV ratio of 65.4% at the end of 2020 present a considerable margin, for the possible sale of assets if need or decided by the Group.

Two bonds ("Euro PP 2023" and "Euro PP 2026") include a gearing ratio covenant (but based on different calculations) related to the net debt before IFRS 16, excluding debt to finance its property portfolio and bank overdrafts related to the development business area, compared to its equity before IFRS 16. The gearing ratio should be below 1.0x in each case, failing which the early repayment of the bond is triggered. At the end of 2020, as in previous periods, the ratios were met (being at 0.04x and -0.18x, thanks to low or negative net debt for this purpose).

The Group's medium and long-term debt to finance its fixed assets is usually 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, therefore does not face significant interest rate risk. The swaps contracted by the Group are valued at their fair value. At the end of 2020 the latent loss related to these swaps was EUR 0.9 million (close to the 2019 figure). Floating rate debt related to development activity is not subject to interest rate hedging.

	2016	*2017*	*2018*	*2019*	*2019*	*2020*	*2020*
	Euro PPs 2019/2023	*Euro PPs 2019/2023*	*Euro PPs 2019/2023*	*Euro PP 2023*	*Euro PP 2026*	*Euro PP 2023*	*Euro PP 2026*
Net Debt (Ratio Gearing Euro PP)	54.2	59.7	39.1	44.0	29.7	2.5	(11.1)
EBITDA	14.8	19.4	30.5	14.2	14.2	(41.6)	(41.6)
Net Debt / EBTIDA	**3.68**	**3.08**	**1.28**	**3.10**	**2.09**	**(0.06)**	**0.27**

Notes: Before IFRS 16.

Sources: Groupe Réside Études.

CAPITAL STRUCTURE

The Group's equity (including minority interests) decreased to EUR 129.3 million in December 2020, from EUR 172.4 million in December 2019, mainly as a result of losses in the unfavourable Covid-19 context. The equity/assets ratio decreased to 6.7% at the end of 2020, from 9.7% at the end of 2019. Before the IFRS 16 impact, this ratio decreased to 7.5% in 2020 (vs 13.4% in 2019) which is deemed low, particularly in the Covid-19 context.

Because of the negative impact of Covid-19 on the Group's cash flow, it is expected that the Group might seek to raise additional equity to finance its expansion strategy (mainly in the senior sector) and focus its activity, with expected positive impact in equity and in the improvement of its financial ratios.

FORECASTS:

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 aparthotels 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

Réside Études Initial Rating Report (12 September 2013)

Réside Études Previous Report (30 November 2020)

PERIOD OF ANALYSIS AND INFORMATION ANALYSED

PERIOD OF ANALYSIS

Historic: 2016 to 1H2021

Forecast: 2021 – 2030

INFORMATION ANALYSED

Réside Études 2020 Annual Report

Financial Debt Details

Réside Études Interim Information

Réside Études 2021-2030 Business Plan

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