ARC RATINGS

CORPORATE
PUBLIC RATING REPORT - REVIEW
13 OCTOBER 2022

RESIDE ÉTUDES INVESTISSEMENT S.A.

ARC Ratings, S.A. (ARC) has affirmed the "BB-" public long-term issuer rating assigned to Réside Études Investissement S.A. (Réside Études) and changed the outlook to Stable, from Developing.

ISSUER	RATING CLASS	RATING	OUTLOOK
Réside Études Investissement S.A.	Corporate Long-Term Issuer	BB-	Stable

Rating Date	13 October 2022
Initial Rating	12 September 2013
Last Review	29 October 2021
Next Review Date	13 October 2023
Criteria Applied	ARC Ratings' Non-Financial Corporate Entities Rating Methodology

This action is based on the reduction of uncertainty and risk associated with the implementation of the Group's current strategic decisions, with operational improvements in 2021 and in the 1H2022, the mitigation of the Group's financial structure vulnerability with the recent issue of TSDI, and the expected sale in the short-term of management rights and real estate assets that will further boost its treasury and improve its equity. The further projected asset sales if materialised according to plan will be a positive factor allowing to reduce the Group's leverage. While the uncertainty regarding the possible impact of a new Covid-19 wave on the group's profitability is expected to be low, the significant heighten of the uncertainty regarding the evolution of the French and European economies, related with the Ukraine/Russia conflict and with the inflation evolution, brought a new layer of uncertainty. 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 n° 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 Neuilly-sur-Seyne. 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 (92.6%) of accommodation units managed and operated by the Group in December 2021 were held by a mix of private and institutional investors (23,500 investors, 8.2% more than at the end of 2020) for whom the Group manages the properties (including invoicing and collecting rents) and with whom the Group seeks to create long-term relationships. Therefore, 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 segments which are more resilient and with stronger fundamentals - residences for seniors and for students, in its home market, France, while stopping the development of new aparthotels. Thus, it is expected that gradually its exposure to the aparthotel segment will decrease, while the Group is committed to return to profitability in this segment.

– Experienced management board – The Group benefits from a committed and experienced management board.

– Market position – A leading player in the residences for students in France, the most stable source of funds, and the second largest player in residences for seniors in the same country. The Group is currently the third largest player in the French aparthotels sector.

– Strong long-term fundamentals of the Group's two main business areas and favourable conditions for investors to support the development of these.

– Conservative Dividend Distribution – the group is only authorized to return to the payment of dividends after the projected voluntary reimbursement of subordinated debt with undetermined maturity (TSDI), a government sponsored equity without option of redemption by the lender, issued on 6 September 2022 to support the treasury of the aparthotel sector.

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 its financial structure. The recent issue of TSDI, registered as equity under IFRS, partially mitigates this vulnerability. The Group's 2022/2026 Business Plan aims to improve its financial structure through gains in projected future transactions, the return to profitability and the entry of a minority shareholder.
- Uncertainty regarding the possible impact from rising inflation – The current context of rising inflation, the measures central banks and governments have been taking to mitigate it and the related cooling of the economy brings a new set of challenges for which the Group has been taking measures to mitigate its impact on its profitability, but whose full impact is uncertain.
- 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 or from the inflation increase; and - Further deterioration or a slower than expected recovery of the Group's financial structure.

COVID-19 PANDEMIC:

While our expectation is that the worse of the COVID-19 pandemic is behind us, as detailed in the previous Rating review reports, the Covid-19 pandemic had a negative impact on all the Group's activities, particularly in the aparthotel sector, but, while there has been some recovery, the pandemic has had a negative and lasting impact on the Group's financial structure. Given these negative impacts, the Group benefited from a set of government measures to support its treasury, including EUR 83.3 million loans guaranteed by the French state (PGE, with fixed interest rate) granted in 2020 that will start to be repaid in the 4th quarter of 2022 until 2026. In 2021, the Group also obtained EUR 10.5 million of public aid, including solidarity funds, fixed cost aid, and partial lay-off in the management business area. In September 2022, the Group issued a EUR 60 million TSDI that was taken by the French Government (through a Transition Fund), as part of the measures to reinforce the equity of the viable companies negatively impacted by the Covid-19 pandemic. In addition, it benefited also of deferrals of social security (EUR 12 million).

Additionally, as detailed in the previous Rating review reports, the Group partially suspended the rent payment to investors in the students and aparthotel sectors, and proposed plans for the regularisation of this situation (total for students' residences, already done, and partial for aparthotels). In 2020 (except for the 1st quarter) and until May 2021, the payment of rents to investors in aparthotels was only made to the ones who accepted the Group's proposition (pay only 40%, plus a variable component tied to the improvement of turnover, excluding accommodation taxes, between 2021 and 2020). From May 2021, all investors in aparthotels received 40% of their annual rent. The rate of acceptance of this proposition increased to 55% of the investors by the end of 2021 (from 47% at the end of 2020). Since the beginning of 2022, the Group has resumed payment of 100% of rent to investors in the aparthotel sector, thus it is paying with regularity rents to all investors.

France continues to rank well in terms of vaccination rate, compared to other countries, with 78.4% of the population with complete initial protocol plus 2.2% only partially vaccinated on 8 September 2022 (above 72.8% and 2.4% respectively in the European Union), which gives some comfort on the moderate impact of a possible new Covid-19 wave. Still, the Group's activity can also be impacted by the status of the pandemic in other countries, which are the origin markets of foreign students, tourists and some business people (again, we take comfort from the high levels of vaccination in other European countries, which are the main origin markets for these).

CASH FLOW GENERATION CAPACITY

On 6 September 2022, ARC Ratings had a conference call with senior management of Réside Études Group to discuss the Group's performance in 2021 and in the first half of 2022 (1H2022), its strategy and its business plan. All relevant information is included in this report.

OPERATIONAL PERFORMANCE BY ACTIVITY

Most of the Group's activity is developed in France, which is not rated by ARC ("AA"/Stable outlook by S&P Global Ratings, "AA"/Negative outlook by Fitch Ratings, Inc. and "Aa2"/Stable by Moody's Investors Service, Inc.). Thus, the country risk is not significant. For 2022/2023 modest increases are projected for the French economy (in the 2% and 1% band respectively, after a significant 6.8% recovery in 2021) in the current context of European conflict and rising inflation (expected in the 6% band and 3% band respectively).

The Group's turnover, and consequently its cash flow generation capacity, was very negatively impacted by the Covid-19 pandemic in 2020 and 2021, going from a consolidated turnover (including IFRS 16) of EUR 449.9 million in 2019 to EUR 338.0 million in 2020 (-24.9%) and to EUR 413.0 million in 2021 (a 22.2% recovery, but still to a level 8.2% behind the 2019 figure). The main impact was felt in the management of aparthotels and the development activity (construction and sales to investors), although residences for students were also somewhat impacted. The residences for seniors showed great resilience.

The evolution before IFRS 16 was very similar, with the Group's turnover increasing by 22.0% in 2021, to EUR 442.2 million (after having declined by 25.4% in 2020), showing resumption of activity in all business areas in 2021. The breakdown is showed in the table on the right.

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

	2018	2019	2020	2021
Management	327.2	358.0	275.3	337.1
Development	144.8	137.8	88.8	107.3
Property	10.6	13.6	17.7	19.1
Holding and not related to other business areas	28.2	31.1	32.8	37.5
Intergroup	(47.0)	(54.5)	(52.1)	(58.9)
Total	**463.9**	**485.9**	**362.4**	**442.2**

Notes: (*) Figures before the IFRS 16.

Sources: Groupe Réside Études.

Management Business Area

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 20 new residences in 2021 (compared with 8 in 2020, when it was slowed down due to Covid-19) and 7 in the 1H2022. Thus, the number of residences managed by the Group increased to 240 in June 2022, representing 32.9 thousand accommodation units (an additional 2.8 thousand accommodation units when compared with the end of 2020). The residences for seniors have led the growth, adding 1.5 thousand accommodation units in the last one and a half year, to 6.4 thousand accommodation units at the end of 1H2022. Accommodation units for seniors now represent 19.4% of the Group's total, a significant increase from the 16.3% in December 2020). Accommodation units for students remained as the most important segment, accounting for 54.4% of the total in June 2022, and aparthotels represented 26.2%.

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

- Residences for students and mixed residences for students/aparthotels – a decrease year-on-year (y-o-y) of almost 7 pp in 2021 (to 80.9%, from 87.7%) due to the reduction of foreign students, because of the Covid-19 impact (given the school year calendar, 2021 was more impacted by Covid-19 in this segment than 2020), the decline in the short-stay segment in mixed residences and the opening of new residences, but still at a high occupancy rate. The 2021 evolution incorporates the recovery in the 2nd half of 2021 (2H2021), due to the return of students for the 2021/2022 school year and larger commercial offers and was followed by a significant recovery in the 1H2022 (to 88.7%, from 80.4%, returning to the preCovid-19 level and above the Group's forecasts).

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

	Dec. 2018	Dec. 2019	Dec. 2020	Dec. 2021	Jun. 2021	Jun. 2022
Total Number of Accommodation Units	**27,243**	**29,304**	**30,077**	**32,217**	**30,597**	**32,912**
Breakdown by Segment:						
For Students	15,783	16,520	16,737	17,905	16,768	17,893
Aparthotels	7,884	8,280	8,442	8,507	8,329	8,639
For Seniors	3,576	4,504	4,898	5,805	5,500	6,380
For Students	57.9%	56.4%	55.6%	55.6%	54.8%	54.4%
Aparthotels	28.9%	28.3%	28.1%	26.4%	27.2%	26.2%
For Seniors	13.1%	15.4%	16.3%	18.0%	18.0%	19.4%

Sources: Réside Études annual Reports and interim information.

- Residences for seniors – suffered a small decrease to 67.0% in 2021 followed by an increase to 68.8% in the 1H2022 (although below the budgeted). The occupancy level of these residences is being impacted by the significant number of residences opened in recent years. In this segment, a residence usually takes time to achieve high occupancy rates and therefore a portfolio with a significant number of recently opened residences penalises the average occupancy rate. Proving this, if we exclude the residences opened in 2021, the occupancy rate improved to 75.1% (from 69.3% in 2020, excluding the residences opened in that year). The Group is working to improve the occupancy rates at the opening of the residences (with acceptable average rates).

- Aparthotels (except Relais Spa) – occupancy rates in this segment increased in all categories in 2021, more significantly in the 2-star and 3-star aparthotels, to 62.8% and 54.6% respectively (from 52.5% and 47.1% in 2020). In the 4-star aparthotels the growth was to 36.4%, from 27.8% in 2020. Thus, the average occupancy rate improved to 51.3% in 2021, from 42.3% in 2020. In the 1H2022 the recovery trend continued, particularly in the 2-star (to 73.1%, from 59.5%) and 3-star (to 68.8%, from 45.1%) aparthotels, returning to the pre-Covid-19 level. In the 4-star aparthotels the occupancy rate improvement was even more significant, improving to 56.4% (from 23.1%), close to the pre-Covid-19 levels.

- Relais Spa aparthotels - 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), there was a modest increase in the occupancy rate to 26.6% in 2021, from 24.7% in 2020. After these two very difficult years 1H2022 witnessed a return to a more normal 60.5% occupancy level (compared with 3.0% level in 1H2021). Regarding the Relais Spa Roissy, located close to the Charles de Gaulle airport, which was significantly impacted by flight restrictions, the Group decided not to renew the management contracts at the end of March 2021. Potential liabilities related to the agreement signed in 2022 with investors of Relais Spa Roissy and the workforce redundancy plan were provisioned at the end of 2021 by EUR 1.0 million, which the Group expects will be enough to cover those liabilities.

In 2021 there were improvements of the Revenue Per Available Room (RevPAR) in all categories of aparthotels, including the Relais Spa Val d'Europe, and in the residences for seniors. On contrary, the RevPAR in the residences for students recorded a decrease due to the lower average occupancy rate and commercial discounts granted in certain residences. The improvement trend of the RevPAR continued in 1H2022 in all segments of residences (having surpassed the budget, except in the residences for seniors).

The revenues from the management business area, which results from its RevPAR, are the main source of the Group's revenues (continuing to represent c. 76.0% of total turnover before IFRS 16) and exhibited the following evolution:

- increased by 22.5% in 2021, to EUR 337.1 million, thanks to revenues growth in all segments. Revenues from aparthotels (except Relais Spa) have grown by 26.8% (but still far from recovering the 47.1% decrease from 2020), while revenues from Relais Spa Val d'Europe aparthotel increased by 93.6%. On contrary, revenues from the Relais Spa Roissy decreased by 64.5% because of the end of the management contract in March 2021. Revenues from the residences for students, usually a resilient segment, modestly rose by 4.2% (after a 10.1% decrease in 2020). The revenues from residences for seniors showed the most positive performance, increasing by 22.7%, benefiting from the increased number of units managed and the RevPAR improvement; and

- significantly increased by 41.6% in the 1H2022, to EUR 189.5 million, mainly resulting from the notable recovery from aparthotels (by 94.8% to EUR 68.2 million), and the very relevant increases from residences for students (by 25.2%, to EUR 64.5 million) and from residences for seniors (by 19.6%).

Development Business Area

In the Covid-19 pandemic context the deliveries of programmes and the progress of works were disturbed.

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) recorded a 20.3% increase in 2021 (after a 38.2% decrease in 2020), to EUR 73.5 million, and a 18.7% y-o-y increase in the 1H2022, to EUR 33.7 million.

In June 2022, the Group had 31 development plans undergoing marketing and construction, 25 of which for seniors (i.e. 80.6% of total), 4 aparthotels and 2 residences for students. In addition, two residences for seniors are under construction which were bought for the Group's property investment portfolio. The purpose of the development plans is to increase the management business area in the coming years. As a result of the strategy to focus the growth of the management activity in residences for students and for seniors, the launch of plans related to aparthotels was suspended.

Even in a framework of rising inflation, the Group projected a positive margin in the development plans undergoing marketing and construction. It should be noted that the Group is implementing a more flexible structure of its marketing activity, including increasing recourse to external marketing.

It should be noted that part of the accommodation units of these 31 development plans undergoing construction are already reserved under VEFA contract which includes the definition of the final selling price. So, the Group cannot update the selling price in function of increase of costs. To mitigate this risk the Group is paying a very close attention to the evolution of costs, with the main cost of construction - labour costs - remaining unchanged, and with builders trying to find alternative materials to mitigate the cost increase on the materials cost side. In addition, the Group has also delayed the start of the commercialisation stage in some developments to avoid situations where it has compromised with a selling price and the increase in costs make that price uninteresting for the Group.

Property Business Area

The Group's property portfolio comprises investment property (residences in exploitation) and exploitation assets (common spaces of several residences and investment property in progress) which are being managed by the Group. Both are recorded at its fair value calculated by third parties.

The Group's property portfolio value increased to EUR 398.6 million in 2021, from EUR 370.8 million in 2020, due to the investment in new residences (mainly for students) and EUR 4.2 million gains of fair value (in opposite with EUR -6.2 million losses in 2020, due to Covid-19 pandemic) in addition to the reversal of the provision (EUR 5.6 million) created for the exploitation assets in the Relais SPA Roissy (which will be exchanged by the unpaid rents to investors, as part of ongoing negotiations). Globally, its property portfolio comprises:

- EUR 252.6 million of investment property (EUR 219.4 million in 2020), mainly comprising residences for students and three aparthotels; and

- EUR 146.1 million of exploitation assets, of which EUR 12.9 million in progress recorded at historical cost (EUR 151.4 million and EUR 26.6 million respectively in 2020).

The turnover from the property portfolio (rentals received from the management side of the Group) increased by 7.9% in 2021, to EUR 19.1 million, and by 3.3% in the 1H2022, to EUR 9.5 million (mainly due to the increase of assets).

2021 CONSOLIDATED FINANCIAL STATEMENTS

The Group only prepares annual consolidated financial statements and therefore we do not have consolidated financial information that translates the improved operational performance of the 1H2022. The 2021 audit report issued by Deloitte & Associés and PHM-AEC presented an unqualified opinion.

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). We have analysed the official accounts, where the IFRS 16 is applied, but also present indicators and metrics before IFRS 16 whenever we consider that these will help in the understanding of the Group's performance (in particular on EBITDA related metrics, as the before IFRS 16 EBITDA is a much better approximation to cash flow generation than the post IFRS 16 EBITDA).

The main operational evolutions in 2021 were the following:

- The Group's turnover increased by 22.2% in 2021, to EUR 413.0 million, while its EBITDA modestly grew by 1.1% to EUR 86.7 million. Thus, its EBITDA margin decreased to 21.0%, from 25.4% in 2020;
- Before IFRS 16, the Group's turnover also increased by 22.0% to EUR 442.2 million, whilst its EBITDA improved by 22.2%, but was still negative in EUR -31.2 million, compared with EUR -40.1 million in 2020, benefiting from the cut of operational costs, but still reflecting a significant impact from Covid-19. Thus, its EBITDA margin before IFRS 16, was still negative (-7.1%, vs -11.1% in 2020 - the EBITDA margin pre Covid-19 (in 2019) was 2.9%); and
- The EBITDA performance by business area showed improvements in the property business area and management business area (though still very negative), but deteriorated in the development business area, as detailed below:
    - 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 15.9 million, improving on the EUR 15.1 million from 2020.

- The EBITDA from the management business area also improved, to EUR -37.5 million from EUR -55.9 million 2020, but, even with the operational costs improvement measures taken, it continued to be negative, very penalised by the Covid-19 pandemic. By segments:

  - Similar to 2020, the aparthotels segment was the most affected by Covid-19, due to the reduction of tourist mobility and business trips, generating EUR-12.1 million EBITDA (still, a significant recovery when compared with EUR-29.2 million in 2020).

  - The residences for students were also somewhat impacted by the Covid-19 pandemic, mainly in 1H2021 with the decrease of occupancy rate (that improved in the 2H2021), that led to a decrease in its EBITDA to EUR 1.3 million, from EUR 3.4 million in 2020 (the only business segment within the management business area that maintained positive EBITDA during the COVID-19 pandemic, but still significantly below the EUR 7.1 million reached in 2019).

  - With EUR -27.4 million (still, an improvement compared with EUR -30.1 million in 2020), the residences for seniors continued to be the activity with the most negative EBITDA generation, but in this case the explanation for this is the phase of the business cycle, i.e. that its portfolio has an important number of residences recently opened (this activity generates negative EBITDA in the first years, despite the efforts made to shorten the time to reach the break-even point).

- EBITDA from the development business deteriorated to EUR -6.3m, from EUR -0.2 million in 2020, because of the delays in the launching and evolution of development projects, as well as the signature of sale contracts due to the Covid-19 pandemic impact (this is a direct impact of the lower level of reservations in 2020, which were only signed into contracts in 2021).

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

	2019	2020	2021
Profit and Loss:			
Turnover	(36.1)	(24.4)	(29.1)
EBITDA	102.2	127.3	120.8
EBIT	30.0	31.2	37.9
Interest Costs	44.1	46.9	51.5
Income tax savings	3.5	3.9	3.4
Net Profit	(10.6)	(11.8)	(10.2)
Balance Sheet:			
Rights of use of Accomodation Units	1,081.0	1,106.2	1,206.9
Deferred tax assets	3.5	7.4	0.0
Total Assets (Non-Current Assets)	1,084.5	1,113.6	1,206.9
Equity	80.0	68.3	35.4
Medium - Long Term Debt	931.6	963.5	1,065.5
Short - Term Debt	72.9	81.9	94.1
Total Debt	1,004.5	1,045.4	1,159.6
Deferred tax assets	0.0	0.0	11.8
Total Liabilities (without Equity)	1,004.5	1,045.4	1,171.4

Sources: Réside Études Annual Reports.

INTEREST COSTS AND COVERAGE RATIO

The Group's financial costs net of financial gains increased, by 11.7%, to EUR 65.9 million in 2021, reflecting the increase of financial costs related to the IFRS 16 impact (which increased to EUR 51.5 million, from EUR 46.9 million, as shown in the table above) and other financial costs. Thus, without the IFRS 16 impact net financial costs were EUR 17.3 million, also including interest expenses related to securitisation (EUR 2.8 million) and one-off costs related to the end of the Relais SPA Roissy management agreement (EUR 1.6 million).

Before IFRS 16 the coverage of net interest costs by EBITDA was still negative (-1.8x) due to the negative EBITDA (although better than -3.0x in 2020). It should be noted that the Group's net interest cost included interest costs related to the debt to finance its property portfolio (EUR 7.2 million in 2021 compared with EUR 6.9 million in 2020). The interest costs related to its property portfolio are covered by the EBITDA generated by the portfolio and stabilised in 2.2x in 2021. The net interest costs related to the Group's remaining financial debt increased by 27.5%, to EUR 10.1 million in 2021, due to the increase of debt related to securitisations and the one-off costs related to the Relais SPA Roissy. Despite the negative EBITDA generation from other Group's business areas, as aforementioned, the payment of the net interest costs related to their debt was ensured by cash and cash equivalents.

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

			IFRS 16	IFRS 16	IFRS 16
	2017	2018	2019	2020	2021
TURNOVER	380,017	463,871	449,855	337,950	413,024
EBITDA	19,398	30,493	116,438	85,754	86,738
EBITDA, BEFORE IFRS 16	19,398	30,493	14,200	(40,074)	(31,181)
EBIT	15,910	21,857	32,694	(30,871)	(3,656)
FINANCIAL COSTS NET OF FINANCIAL GAINS	7,559	8,140	55,981	58,997	65,919
FINANCIAL COSTS NET OF FINANCIAL GAINS, BEFORE IFRS 16	7,559	8,140	11,840	13,536	17,256
NET PROFIT	6,106	11,789	(17,282)	(67,477)	(53,105)
CASH FLOW POSITION	10,153	16,944	61,399	29,136	24,138
EBITDA Margin (%)	5.1%	6.6%	25.9%	25.4%	21.0%
Net Return on Turnover (%)	1.6%	2.5%	(3.8%)	(20.0%)	(12.9%)
Payout Ratio (%)	19.7%	15.3%	0.0%	0.0%	0.0%
Coverage of Net Interest Costs by EBITDA (x)	2.6	3.7	2.1	1.5	1.3
Coverage of Net Interest Costs by EBITDA (x), BEFORE IFRS 16	2.6	3.7	1.2	(3.0)	(1.8)

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

Sources: Groupe Réside Études Annual Reports.

NET PROFIT

The consolidated earnings before taxes improved in 2021 to EUR -69.6 million, from EUR -89.9 million in 2020, although remaining negative and worse than in 2019 (EUR -23.3 million). The saving of income taxes allowed a EUR -53.1 million net profit in 2021, improving from EUR -67.5 million in 2020.

Before IFRS 16, the consolidated net profit was EUR -42.9 million in 2021, improving from EUR -55.8 million in 2020. Compared with the business plan analysed in the previous Rating Report the result was better in EUR 10.4 million, reflecting a mix of evolutions. This better than forecasted evolution reflects a better than expected performance from aparthotels, fair value gains on the property portfolio, EUR 6.4 million of Government aid related with Covid-19 and a bigger than expected income tax credit. With worse performances than forecasted in the business plan, were the development business area and the residences for seniors' results.

FINANCIAL POLICY:

ASSETS AND LIABILITIES

The Group's total assets slightly increased in 2021, by 4.6%, to EUR 2,018.6 million at the end of 2021 (84.5% non-current assets and 15.5% current assets). This increase, equivalent to EUR 88.1 million, was primarily because of a EUR 93.2 million increase in non-current assets mostly related with the recognition of utilisation rights in accordance with IFRS 16, a reflection of the increase in the Group's portfolio under management.

Other than that, we should note the increase of the following assets:

- property portfolio, by EUR 27.8 million, and of other fixed assets, by EUR 9.5 million;
- deferred tax assets (excluding related to IFRS 16 impact), by EUR 16.7 million, to EUR 25.9 million;
- inventories, by EUR 9.2 million, to EUR 47.0 million, related to the resumption of its development activity; and
- regularisation accounts, by EUR 18.6 million, to EUR 60.0 million.

Conversely, we noted the decrease of cash and cash equivalents, by EUR 79.8 million, to EUR 119.1 million, still a comfortable level. As aforementioned, the Group took measures to safeguard its liquidity in the uncertain context of the Covid-19 pandemic. The cash decrease was mainly due to the negative cash flow position before IFRS 16, of EUR -48.7 million (slightly improved versus EUR -52.2 million in 2020) and the investment to reinforce its property portfolio and other fixed assets (EUR 35.1 million, compared with EUR 33.2 million in 2020), which were partially balanced with the working capital requirements change (by EUR 11.2 million). In addition, accounts receivables recorded a small decrease to EUR 40.7 million, while the doubtful accounts receivables remained stable at EUR 4.5 million, equivalent to 10.0% of total, which was 100% covered by allowance.

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

Group's gross debt increased by 6.9% in 2021, to EUR 1,686.3 million comprised of:

- EUR 1,159.6 million (1,045.4 million in 2020) - lease obligations recorded in accordance with IFRS 16 (91.9% of which maturing at medium-long term); and
- EUR 526.7 million other financial debt (compared with EUR 532.4 million in 2020), including the following:

- EUR 450.4 million - contracted at medium and long-term (vs EUR 454.5 million in 2020), including bank loans, bonds, PGE loans, mortgage loans and financial leases to finance its fixed assets, namely its property portfolio. At the end of 2021, EUR 116.5 million of this debt (25.9% of total) was recorded as short-term debt, while 33.5% was recorded to mature in 1 to 5 years and the remaining 40.6% was recorded to mature at more than 5 years. The unusually high short term component in 2021 reflects the recording of the Group's bonds, with initial maturity scheduled for February 2023 (the "Euro PP 2023") and for December 2026 (the "Euro PP 2026") – in a total amount of EUR 92.8 million - as short-term debt at the end of 2021 as on that date the Group was not meeting the gearing ratio contracted in these bond issues. The Group's debt maturity profile has meanwhile significantly improved after having recently reached an agreement with the bondholders for a two-years extension of the "Euro PP 2023" maturity, to February 2025, and for the consideration of the EUR 60.0 million TSDI as equity for the calculation of the gearing ratio (thus, this ratio is now being respected).

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

			IFRS 16	*IFRS 16*	*IFRS 16*
	2017	*2018*	*2019*	*2020*	*2021*
TOTAL ASSETS	510,290	578,217	1,775,110	1,930,384	2,018,598
NET WORKING CAP. REQUIREMENTS (NWCR)	66,263	57,250	72,392	(22,308)	(2,479)
NET FINANCIAL DEBT	255,347	272,730	1,361,881	1,378,895	1,567,216
NET FINANCIAL DEBT, BEFORE IFRS 16	255,347	272,730	357,409	333,509	407,588
Net Financial Debt / EBITDA (x)	13.2	8.9	11.7	16.1	18.1
Net Financial Debt / EBITDA (x), BEFORE IFRS 16	13.2	8.9	25.2	(8.3)	(13.1)
Loan to Value Ratio - Property Portfolio (%)	57.8%	53.0%	67.1%	65.4%	61.3%
Equity (Incl. Minor. Int.) / Assets (%)	17.3%	17.1%	9.7%	6.7%	2.9%
Liquidity Risk	100.0%	100.0%	100.0%	0.0%	100.0%
Current Assets Ratio	116.3%	117.4%	102.8%	118.0%	68.9%
Acid Test Ratio	78.1%	93.1%	82.5%	105.9%	58.5%

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

Sources: Groupe Réside Études Annual Reports.

- EUR 61.9 million - securitisation of receivables to diversify its sources of funding (versus EUR 59.1 million in 2020). EUR 32.4 million of which will mature by the end of 2022 (regarding the first securitisation done in 2018, extended by one year and with a EUR 2.8 million additional issued in 2021 with same maturity), and EUR 29.5 million issued in 2020 that will mature in 2022. The Group is preparing a new securitisation to be issued in 2022, to replace the one maturing at the end of the year, and aims to maintain at least EUR 60.0 million of total securitisation with a long-term maturity (ideally of 4 years, i.e. increasing one year compared with the existing).
- EUR 14.4 million - bank overdrafts (EUR 18.9 million in 2020). The decrease was due to the change of schedule in the development of new residences.

Therefore, considering that the bonds are not due in the short-term (as detailed above) and assuming a successful completion of the new securitisation to be issued in 2022 the Group's short-term ex-IFRS 16 related financial debt at the end of 2021 would be EUR 38.8 million (close to EUR 38.6 million in 2020), which would be covered 3.1x by cash and cash equivalents, still a comfortable level despite the decrease from the 5.2x from 2020 (an exceptional coverage in a context of greater uncertainty caused by Covid-19).

In the 1H2022 the Group's cash and cash equivalents decreased by EUR 66.9 million, due to the negative free cash flow from activity in this period, the payment of Covid-related debts whose payment was deferred in previous years, payment of debt (EUR 13.2 million) and some investment regarding operational assets for its property portfolio. However, the issue of EUR 60.0 million of TSDI in September and the expected inflow from the sale of the management rights of certain residences and sale of operational assets (please see forecasts) will boost the Group's treasury, thus there is no current liquidity pressure, nor is it expected in the following years. It is important to highlight that the TSDI holds no option of redemption by the lender.

The Group's gross financial debt (not considering the securitisation of receivables and IFRS 16 related debt), can be broken down in three categories, considering its purpose:

– To finance its property portfolio - EUR 248.9 million in 2021 close to the EUR 247.7 million in 2020 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 improved to 61.3% at the end of 2021 (from 65.4% at the end of 2020), thanks to the increase in fair market value of its property portfolio - a reasonable LTV ratio.

– To finance the development business area – EUR 14.4 million in 2021 (bank overdrafts, mentioned above), versus EUR 18.9 million in 2020, due to the slowdown of activity. Considering the cash and cash equivalents of the subsidiaries that operate in this business area, the net debt decreased to EUR 1.2 million (from EUR 12.1 million in 2020). Usually, the repayment of this debt will be made with the proceeds of the phased payments received from the buyers of accommodation units ("Ventes en l'état future d'achèvement" - VEFA) – payments that are made in accordance with the stage of completion of the accommodation; and

– To finance capex in fixed assets not included in its property portfolio and other generic debt – EUR 198.2 million in 2021 (a small decrease compared with EUR 203.8 million in 2020), namely bonds and the PGE loans. Therefore, its service of debt is strictly linked to the Group's EBITDA.

The Group's ex-IFRS 16 related net financial debt increased by 22.2% in 2021, due to the decrease of cash and cash equivalents, as abovementioned, to EUR 407.6 million (from EUR 333.5 million in 2020). Considering the IFRS 16 related debt the Group's net financial debt reached EUR 1,567.2 million in 2021, compared with EUR 1,378.9 million in 2020.

In 2021, before IFRS 16 impact, the net financial debt/EBITDA ratio remained negative at -13.1x, due to negative EBITDA, and worsened compared with -8.3x in 2020, as a result of the net financial debt increase. Considering the data provided by the Group, the net financial debt/EBITDA ratio specific in the property portfolio business area slightly improved to 15.4x in 2021, from 16.1x in 2020, a manageable leverage considering its maturity. On top of that, the LTV ratio of 61.3% at the end of 2021 present a considerable margin, for the possible sale of assets if needed 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. In June 2022, the bondholders approved the modification of the definition of equity for the calculation of the gearing ratio, to include the TSDI. Taking into consideration this modification, the ratios were met (being at 0.30x and 0.18x), as in the previous periods.

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 2021 the latent loss related to these swaps was EUR 1.7 million (EUR 0.9 million in 2020). Floating rate debt related to

	2017	*2018*	*2019*	*2019*	*2020*	*2020*	*2021*	*2021*
	Euro PPs 2019/2023	*Euro PPs 2019/2023*	*Euro PP 2023*	*Euro PP 2026*	*Euro PP 2023*	*Euro PP 2026*	*Euro PP 2023*	*Euro PP 2026*
Net Debt (Ratio Gearing Euro PP)	59.7	39.1	44.0	29.7	2.5	(11.1)	24.6	14.9
EBITDA	19.4	30.5	14.2	14.2	(40.1)	(40.1)	(31.2)	(31.2)
Net Debt / EBTIDA	**3.08**	**1.28**	**3.10**	**2.09**	**(0.06)**	**0.28**	**(0.79)**	**(0.48)**

Notes: Before IFRS 16.

Sources: Groupe Réside Études.

development activity is not subject to interest rate hedging, and therefore is subject to interest rate risk, particularly in the current context of increasing interest rates, a risk that is mitigated by its short-term nature.

CAPITAL STRUCTURE

The Group's equity (including minority interests) decreased to EUR 58.3 million in December 2021, from EUR 129.3 million in December 2020, because of losses in the unfavourable Covid-19 context and IFRS 16 deferred tax correction (of EUR -22.6 million). This correction is explained by a change of the auditors' estimate of the amount of deferred taxes related with the Right of Use versus the one that was registered during the implementation of IFRS 16 in 2019. Thus, the equity/assets ratio decreased to a very low level of 2.9% at the end of 2021, from 6.7% at the end of 2020. Before the IFRS 16 impact, this ratio also decreased to 2.8% in 2021 (from 7.5% in 2020) which is deemed very low.

Aware of the need to reinforce its equity, the Group issued a EUR 60.0 million TSDI, with undefined maturity, which is considered equity according to the IFRS and improved the Group's financial ratios. If we consider these TSDI at the end of 2021, its equity/assets ratio stands at 5.7% (or to 9.5% before the IFRS 16 impact). In addition, the Group intends to further improve its equity through the sale of the management rights of a portfolio of mature residences and of operational assets. A binding sales agreement was signed by the future buyer in June 2022, regarding 14 residences for seniors for EUR 39.5 million. EUR 28.0 million of which regarding the management rights, including EUR 3.2 million of earn out, and EUR 11.5 million related to operational assets owned by the Group in these residences. The closing of the transaction waits for the necessary authorisations, and the Group expects to complete it before the end of 2022 (at least regarding 11 residences and its operational assets). On top of that, depending on the market circumstances, the Group considers the possibility to open the parent company's share capital (or of a subsidiary) to a minority shareholder in the coming years. It should be noted that the TSDI does not allow the payment of dividends, which is a detrimental factor in terms of finding an investor.

FORECASTS:

In July 2022, the Group updated its business plan for the 2022-2026 period, without taking account of the IFRS 16 impact, based on 2021 figures and developments in the 1H2022. After a period impacted by the Covid-19 pandemic, in which the main priority was to preserve the Group's liquidity, the main guidelines of this long-term business plan are the strengthening of its equity, the deleveraging and the return to profitability of its business areas. The Group maintains its previous strategy of expansion in the most resilient and with stronger long-term fundamentals segments (in particular the seniors' segment), mainly in the French market. However, its previous strategy of significant reduction of its exposure to the aparthotels segment was rethought, and it will continue to manage most of the existing portfolio supported by the issue of TSDI.

For 2022, the Group still forecasts a negative EBITDA, due to the continuation of negative EBITDA generation from the residences for seniors (because of the phase of the business cycle in which this sector is in) and aparthotel segments (still impacted by Covid-19 pandemic in the 1H2022). It should be noted that the forecasted negative EBITDA for 2022, compares with a positive EBITDA in the Group's previous forecasts. The main reasons are the strategic decision of maintenance of the management of most of the existing portfolio in the aparthotel sector and a higher number of new residences for seniors (while, at the same time, projecting to sell the management rights of mature residences to finance further expansion).

The Group forecasts to return to positive and significant value of EBITDA in 2023 (above the pre-Covid level) based on the expected positive EBITDA generation in all its main business areas, except seniors, thanks to the optimisation of the portfolio of assets and improved operational performance. For the following years, it is projected increasing values of EBITDA, from the balancing of decreasing negative EBITDA from residences for seniors until 2024 (and positive generation afterwards) with the expected growth of EBITDA from other business areas.

The expansion strategy, particularly in the residences for the seniors segment, is expected to be financed through a mix of funds from divestment, cash flow from operations and equity inflow. Even with a reduction of the projected investment level, a negative free cash flow is forecasted until 2024 (in part due to the regularisation of previous years payments that were deferred due to Covid-19), followed by positive values.

The gross debt (note that the TSDI are not considered as debt but as equity) is projected to present a decreasing trend over the 2022-2026 period. The Group expects the LTV ratio of its property portfolio to make a significant improvement. Its net financial debt is also expected to show a decreasing trend (except in 2024). The net financial debt/EBITDA ratio will be negative in 2022 (but with a significantly less negative EBITDA) and is expected to return to positive levels in the coming years, improving from high to moderate level, clearly better than the pre-pandemic levels.

Globally, the Group expects to continue the trajectory of recovery initiated in 2021 and has aligned a strategy of increased cost efficiency, optimisation of the portfolio of assets and deleveraging based on the improved operational performance, sale of assets and entry of a minority shareholder. All these factors contain a degree of uncertainty, but the 1H2022 performance provides some comfort in terms of operational improvement and successful asset sales, on top of having obtained an extra layer of financial flexibility with the issuance of the EUR 60 million TSDI. The further projected asset sales if materialised in accordance with expectations will be a positive factor allowing to reduce the Group's leverage. For the entry of a minority shareholder the operational performance improvement will always be key, and in this regard, while the possible impact of a new Covid-19 wave might be expected to be low, the significant heighten of the uncertainty regarding the evolution of the French and European economies, related with the Ukraine/Russia conflict and to the inflation evolution, brought a new layer of uncertainty. In an unfavourable context, the Group may slow down the development of new plans (as occurred in 2020) or, in case of need, sell some additional assets from its property portfolio. ARC will monitor the Group's EBITDA and its debt metrics.

RELATED CRITERIA AND RESEARCH

ARC Ratings' Non-Financial Corporate Entities Rating Methodology

Réside Études Initial Rating Report (12 September 2013)

Réside Études Previous Report (29 October 2021)

PERIOD OF ANALYSIS AND INFORMATION ANALYSED

PERIOD OF ANALYSIS

Historic: 2017 to 1H2022

Forecast: 2022 – 2026

INFORMATION ANALYSED

Réside Études 2021 Annual Report

Financial Debt Details

Réside Études Interim Information

Réside Études 2022-2026 Business Plan

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