

## RATING ACTION:

### ARC RATINGS AFFIRMS RÉSIDE ÉTUDES'S RATING, CHANGING THE OUTLOOK TO STABLE FROM DEVELOPING

Lisbon, 13 October 2022- ARC Ratings, S.A. has affirmed the final long-term issuer public rating assigned to Réside Études Investissement S.A. of "BB-", changing the outlook to stable from developing.

ISSUER	RATING CLASS	RATING	OUTLOOK	NEXT REVIEW DATE
Réside Études Investissement S.A.	Corporate Long-Term Issuer	BB-	Stable	13 October 2023

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 financial structure.

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## ISSUER PROFILE

Résidé Études Investissement S.A. is the holding company of a French Group created in 1989 and headquartered in Neuilly-sur-Seine.

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

Most accommodation units managed and operated by the Group were held by a mix of private and institutional investors for whom the Group manages the properties (including invoicing and collecting rents) and with whom the Group seeks to create long-term relationships.

## RATING RATIONALE

Résidé Études Investissement S.A.'s key rating drivers are the following:

- Debt maturity profile - Most of the Group's debt, before IFRS 16, is contracted in the medium and long-term (mainly at fixed interest rates) to finance its property portfolio. Thus, its short-term debt is primarily connected to the real estate development activity and is being repaid from the proceeds of the sale of accommodation units.
- Focused growth strategy - The Group has decided to focus its growth for the coming decade in the two 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 Investissement S.A.'s credit ratings are:

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

## RECENT DEVELOPMENTS AND OUTLOOK

The number of accommodation units managed by the Group continued to show an increasing trend, mainly as a result of ongoing developing programmes. The number of residences managed by the Group increased to 240 in June 2022, representing 32.9 thousand accommodation units. Accommodation units for seniors now represent 19.4% of the Group's total. 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 application of IFRS 16 related to operational leases had a significant accounting impact on the Group's financial statements, with no cash flow impact. Thus, the following analysis is before the IFRS 16 impact. Furthermore, 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 Group's turnover increased by 22.0% to EUR 442.2 million in 2021, 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 was still negative (-7.1%, vs -11.1% in 2020 - the EBITDA margin pre Covid-19 (in 2019) was 2.9%). The revenues from the management business area, the main source of the Group's revenues, increased by 22.5% in 2021 (to EUR 337.1 million), thanks to revenues growth in all segments, and by 41.6% in the 1H2022, mainly resulting from the notable recovery from aparthotels and the very relevant increases from residences for students and from residences for seniors.

In June 2022, the Group had 31 development plans undergoing marketing and construction, 25 of which for seniors, to increase the management business area in the coming years.

**GROUP RÉSIDE ÉTUDES – FINANCIALS AND RATIOS (THOUSAND EUROS)**

	2017	2018	IFRS 16 2019	IFRS 16 2020	IFRS 16 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)
FINANCIAL COSTS NET OF FINANCIAL GAINS, BEFORE IFRS 16	7,559	8,140	11,840	13,536	17,256
Coverage of Net Interest Costs by EBITDA (x), BEFORE IFRS 16	2.6	3.7	1.2	(3.0)	(1.8)
TOTAL ASSETS	510,290	578,217	1,775,110	1,930,384	2,018,598
NET FINANCIAL DEBT, BEFORE IFRS 16	255,347	272,730	357,409	333,509	407,588
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%
Total Number of Accommodation Units	25,730	27,243	29,304	30,077	32,217

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

Sources: Groupe Réside Études Annual Reports.

The Group's gross debt slightly decreased in 2021, to EUR 526.7 million. EUR 248.9 million of which was to finance its property portfolio contracted on a per asset basis, considering the expected revenues of the property. The LTV of the debt net of lessee advances on its property portfolio, considering its fair value, improved to 61.3% at the end of 2021, a reasonable LTV ratio. The Group's net financial debt increased by 22.2% in 2021, to EUR 407.6 million. Its net financial debt/EBITDA ratio remained negative at -13.1x, due to negative EBITDA. The net financial debt/EBITDA ratio specific in the property portfolio business area slightly improved to 15.4x in 2021, a manageable leverage considering its maturity.

In 2021 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).

The Group's equity decreased in 2021 mainly as a result of losses in the unfavourable Covid-19 context. Thus, the equity/assets ratio decreased to 2.8% in 2021, 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. If we consider these TSDI at the end of 2021, its equity/assets ratio stands at 9.5%.

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. 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). 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. 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 is expected to be financed through a mix of funds from divestment, cash flow from operations and equity inflow. 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), whilst the net financial debt / EBITDA ratio will be negative in 2022 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 TSDI. 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.

Résidence Études Investissement S.A Rating Review Report.

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

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