RATING ACTION:

ARC RATINGS AFFIRMS RÉSIDE ÉTUDES' RATING

Lisbon, 13 October 2023 - ARC Ratings, S.A. has affirmed the final long-term issuer public rating assigned to Réside Études Investissement S.A..

Issuer	Rating Class	Rating	Outlook	Next Review Date
Réside Études Investissement S.A.	Corporate Long-Term Issuer	BB-	Stable	14 October 2024

ARC Ratings, S.A. has affirmed the final long-term issuer public rating of "BB-", with Stable outlook, assigned to Réside Études Investissement S.A.. This action is based on the operational improvements in 2022, and in the YTD August 2023 period, while the sale of management rights and real estate assets improved the Group's equity and allowed to reduce debt, improving its leverage. The expected entry, in the short-term, of a shareholder in the residences for seniors business area, if materialized in accordance with expectations, will be a positive factor improving the Group's equity, whilst financing the projected expansion in this segment with good long-term fundamentals. At the same time, in the coming years, the Group plans to continue the trajectory of recovery and improvement of profitability to improve its financial structure. The degree of uncertainty that characterizes the implementation of its strategy increased in the short term by the heighted inflation and interest rates, that brings further challenges. ARC will monitor closely the Group's performance and its financial structure.

ISSUER PROFILE

Réside Études Investissement S.A. is the holding company of a French Group created in 1989.

The Group's main 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 are held by a mix of private and institutional investors, for whom the Group manages the properties (including invoicing and collecting rents) and with whom it creates long-term relationships.

ANALYTICAL CONTACT DETAILS

ISABEL FERNANDES

Senior Corporate Analyst
Lead Analyst
isabel.fernandes@arcratings.com

VÍTOR FIGUEIREDO

Sector Head – Special Projects
Back-up Analyst
vitor.figueiredo@arcratings.com

PINKY SHARMA

Head of Credit Assessments
Panel Chairperson
pinky.sharma@arcratings.com

RATING RATIONALE

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

- <u>Debt maturity profile</u> - 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.

- <u>Focused growth strategy</u> – 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 stopping the development of new aparthotels. Thus, it is expected that its exposure to the aparthotel segment will decrease, while the Group is committed to return to profitability in this segment.

- <u>Experienced management board</u> – The Group benefits from a committed and experienced management board.

- <u>Market position</u> – A leading player in the residences for students in France, the most stable source of funds, and the leader, within the entities that are not integrated in large financial groups, in residences for seniors in the same country. The Group is currently the third largest player in the French aparthotels sector.

- <u>Strong long-term market fundamentals for the residences for students and seniors business areas</u>, supporting the Group's option to focus in these business areas.

- <u>No-Dividend Distribution</u> – the Group is committed to reinforce its equity, thus it is not part of its plans to return to dividend payments until the end of the decade.

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

- <u>Group's vulnerable financial structure</u>– the Covid-19 pandemic (pandemic from now on) had a significant negative impact on the Group's profitability and debt metrics in 2020 and 2021 (and partially in 2022), increasing the vulnerability of its financial structure. The issue of subordinated debt with undetermined maturity (TSDI), equivalent to equity under IFRS, and the gains obtained in the sale of assets partially mitigated this vulnerability in 2022. The Group's 2023/2030 Business Plan aims to improve its financial structure through the entry of minority shareholders and the return to profitability (after 2025).

- <u>Challenging economic environment</u> – the high inflation and increasing interest rates to fight it, along with perspectives of moderate growth for the French economy, lead to a slowdown in the development activity and pressure on the Group's costs. The Group expects this to be conjunctural and is taking measures to optimise the marketing of its offer and the efficiency of its operations.

RECENT DEVELOPMENTS AND OUTLOOK

In 2022, to improve its capital structure, which was significantly impacted by the pandemic, the Group sold the management rights, and common parts, of 13 mature and profitable residences for seniors, in addition to two residences for students that were part of its property portfolio. These transactions were completed in December 2022 (generating EUR 29.5 million of capital gains and reduced debt). Even after these sales, the number of accommodation units managed by the Group maintained its increasing trend (2.0% increase), reflecting the continued development of new residences. In December 2022, the Group managed 239 residences with 32.9 thousand accommodation units, of which 56.2% for students, that remained the most important segment, 26.9% aparthotels and 16.9% for seniors.

The application of IFRS 16 related to operational leases had a significant accounting impact on the Group's financial statements, with no cash flow impact. Therefore, the following analysis is before the IFRS 16 impact.

Additionally, the Group only prepares annual consolidated financial statements and therefore we don't have consolidated financial information that translates the improved operational performance of the YTD August 2023 period.

GROUP RÉSIDE ÉTUDES - FINANCIALS AND RATIOS (THOUSAND EUROS)

	2018	IFRS 16 2019	IFRS 16 2020	IFRS 16 2021	IFRS 16 2022
TURNOVER	463,871	449,855	337,950	413,024	498,372
TURNOVER, BEFORE IFRS 16	463,871	485,919	362,394	442,150	547,760
EBITDA	30,493	116,438	87,194	89,619	141,993
EBITDA, BEFORE IFRS 16	30,493	14,200	(40,074)	(31,181)	3,446
FINANCIAL COSTS NET OF FINANCIAL GAINS, BEFORE IFRS 16	8,140	11,840	13,536	17,256	12,953
Coverage of Net Interest Costs by EBITDA (x), BEFORE IFRS 16	3.7	1.2	(3.0)	(1.8)	0.3
TOTAL ASSETS	578,217	1,775,110	1,930,384	2,018,598	1,890,511
NET FINANCIAL DEBT, BEFORE IFRS 16	272,730	357,409	333,509	407,588	325,544
Net Financial Debt / EBITDA (x), BEFORE IFRS 16	8.9	25.2	(8.3)	(13.1)	94.5
Loan to Value Ratio - Property Portfolio (%)	53.0%	67.1%	65.4%	61.3%	54.6%
Equity (Incl. Minor. Int.) / Assets (%)	17.1%	9.7%	6.7%	2.9%	5.3%
Total Number of Accommodation Units	27,243	29,304	30,077	32,217	32,217

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

Sources: Groupe Réside Études Annual Reports.

The Group's turnover increased by 23.9% to EUR 547.8 million in 2022, while its EBITDA improved, becoming positive, to EUR 3.4 million, compared with EUR -31.2 million in 2021 and EUR -15.4 million budgeted, reflecting the recovery of activity that was significantly impacted by the pandemic, and the effect of operational costs cut measures started in

2021. Thus, its EBITDA margin was 0.6% (compared with -7.1% in 2021, but still behind the EBITDA margin pre pandemic of 2.9% in 2019).

The revenues from the management business area, clearly the main source of the Group's revenues, increased by 33.4% in 2022, to EUR 449.6 million, with positive growth in all segments, but with special emphasis on aparthotels. The YTD August 2023 revenue numbers are not available for the aparthotels. For the other segments, it was registered a 10.4% increase in the revenues from the student segment, while the revenues from residences or seniors rose by 31.8% (24% in comparable terms).

In August 2023, the Group had 35 development plans undergoing marketing and construction, 28 of which for seniors.

As of December 2022, the Group's property portfolio value was EUR 355.4 million. Even, in a conjuncture of high interest rates, this portfolio recorded circa EUR 2.4 million of fair value gains (EUR 4.2 million in 2021).

In 2022, in a context of sale of management rights and assets, the Group's gross debt decreased by 8.2%, to EUR 483.7 million. EUR 196.4 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 54.6% at the end of 2022, thanks to the repayment of debt and the fair market value increase of its property portfolio - a reasonable LTV ratio.

The Group's net financial debt decreased by 20.1% in 2022, to EUR 325.5 million. This decrease of debt, equivalent to EUR -82.0 million, was reached through the reduction of debt (by EUR 43.0 million) and the increase of cash and cash equivalents. Notwithstanding the net debt decrease, the net financial debt/EBITDA ratio became positive, but very high (94.5x), because the EBITDA became only marginally positive in 2022. However, it is an improvement compared with the -13.1x from 2021. The net financial debt/EBITDA ratio specific in the property portfolio business area improved to 11.8x in 2022, from 15.4x in 2021, a manageable leverage considering its maturity.

In 2022 the coverage of net interest costs by EBITDA became positive, at 0.3x, which is a low level, but was an improvement compared with the negative figures in 2021 (-1.8x) and 2020 impacted by the pandemic.

The Group's equity increased in 2022 mainly as a result of the issue of EUR 60.0 million TSDI, with undefined maturity (which is considered quasi-capital according to the IFRS), and the gains (of EUR 29.5 million) obtained with the sale of a portfolio of mature residences for seniors, of two residences for students and operational assets, which mostly offset the current loss. Thus, the equity/assets ratio improved to 11.1% in 2022 (from 2.8% in 2021, still below the 13.4% from 2019).

In July 2023, the Group updated its business plan for the 2023-2030 period, without taking into account the IFRS 16 impact, based on 2022 figures and developments in the 1H 2023. The main guidelines of this long-term business plan remain the same as the previous, with

the Group focused on the further strengthening of its equity, additional 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. Regarding the aparthotel segment, significantly impacted by the pandemic, but with a notable recovery in 2022, the Group assumption is to maintain the majority of the existing portfolio.

For 2023 the Group forecasts to return to a slightly negative EBITDA, due to the expected negative EBITDA from residences for seniors (in a context where the mix of mature versus non-mature residences is more biased to the later) and from the development business area (projected to worsen this year due to adverse context on the real estate market), and to non-recurrent costs. We should note that the expected positive EBITDA from the aparthotel segment in 2023 may not be achieved, however 2024 presents good perspectives, particularly related to the fact that Paris will host the XXXIII Olympic Summer Games. In the coming years it is expected a significant EBITDA improvement, to EUR 19.5 million in 2024, EUR 61.5 million in 2026 (when it is projected the equilibrium in the segment of residences for seniors) and surpassing EUR 100 million level in 2029.

In 2023 and 2024 the Group's free cash flow is expected to be penalised by the regularization of previous years payments that were deferred due to pandemic. Thus, it is predictable negative free cash flow in these years. Positives values are projected for the following years.

Therefore, to finance the expansion of residences for seniors, the Group aims to open the share capital of the main subsidiary in this segment in 2023. In addition, an inflow from the disinvestment of assets and from the non-renewal of commercial leases is also forecasted in 2023. In the long term, depending on the market circumstances the Group also considers the possibility of opening the share capital of the parent company to minority shareholders.

The net financial debt is projected to present a decreasing trend, whilst its net financial debt /EBITDA ratio is forecasted to be negative in 2023 (from negative EBITDA) and to return to positive levels, improving from high to moderate/low level, during the rest of the decade, clearly better than the pre-pandemic levels. In addition, the Group expects an improvement of the LTV ratio of its property portfolio.

The Group expects to continue the trajectory of recovery and improvement and has aligned a strategy of increased cost efficiency, optimization of the portfolio of assets and deleveraging based on the improved operational performance from 2024 and the entry of a shareholder in the residences for seniors business. All these factors contain a degree of uncertainty, increased in the short term by the heighted inflation and interest rates, that brings further challenges to the Group, in particular in what regards the commercialization of the accommodation units with investors. Still, the YTD August 2023 performance of the residences for students and for seniors give some comfort in terms of operational improvement. 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 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 nº 266 - The Credit Rating Agencies (Amendment etc.) (EU Exit).

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This Review Report should be read together with initial Rating Report and with the subsequent Review reports.
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CONTACT DETAILS

ARC Ratings (UK) Limited

25 Cabot Square
Canary Wharf
London E14 4QZ
UNITED KINGDOM
+44 203 927 8600
arcratings_uk@arcratings.com

Rhonda Moore
Business Development Director
rhonda.moore@arcratings.com

ARC Ratings, S.A.

Rua de São José
35 – 1º B
1150-321 Lisbon
PORTUGAL
+351 21 304 11 10
arcratings_eu@arcratings.com

www.arcratings.com