

RÉSIDE ÉTUDES INVESTISSEMENT S.A.

ARC Ratings, S.A. (ARC) has affirmed the “BB-”, with Stable outlook, public long-term issuer rating assigned to Réside Études Investissement S.A. (Réside Études).

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

Rating Date	13 October 2023
Initial Rating	12 September 2013
Last Review	13 October 2022
Next Review Date	14 October 2024
Criteria Applied	ARC Ratings’ Non-Financial Corporate Entities Rating Methodology

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 heightened inflation and interest rates, that brings further challenges. ARC will monitor closely the Group’s performance and its 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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Analytical Contacts



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

GROUP PROFILE

Résidence 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).

Most accommodation units managed and operated by the Group are held by a mix of private and institutional investors, for whom it manages the properties (including invoicing and collecting rents) and with whom it creates long-term relationships. In December 2022, 93.8% of total accommodation units were held by 23,000 investors. Year to date August 2023 (YTD August 2023) there was no significant change. Therefore, the application of International Financial Reporting Standard 16 (IFRS 16), for the first time in 2019, had a significant accounting impact, although without any 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 stopping the development of new apart-hotels. Thus, it is expected that its exposure to the apart-hotels 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 leader, within the entities that are not integrated in large financial groups, player in residences for seniors in the same country. The Group is currently the third largest player in the French apart-hotels sector.
- Strong long-term market fundamentals for the residences for students and seniors business areas, supporting the Group's option to focus in these business areas.
- No-Dividend Distribution - 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' CREDIT RATING ARE:

- Group's vulnerable financial structure- 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).
- Challenging economic environment - the high inflation and increasing interest rate 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.

KEY TIPPING POINTS

<u>Positive Turning Points</u>	<u>Negative Turning Points</u>
<p>Triggers for a potential rating upgrade would include:</p> <ul style="list-style-type: none"> - 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. 	<p>Triggers that could prompt a rating downgrade would include:</p> <ul style="list-style-type: none"> - A slower than expected recovery of the Group's turnover and EBITDA; and - Deterioration or a slower than expected recovery of the Group's financial structure.

CASH FLOW GENERATION CAPACITY

On 13 September 2023, ARC Ratings had a meeting with senior management of Réside Études Group to discuss the Group's performance in 2022 and in the YTD August 2023 period, 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, but its second highest rating assigned by reference credit rating agencies is AA/Negative. Thus, the country risk is not significant. For 2023/2024 the French economic growth expectations are modest (0.7% and 1.4% respectively, after a 2.6% increase in 2022) in a context of European conflict, high inflation (5.5% and 2.5%, respectively) and high interest rates to fight inflation.

The Group's turnover, and consequently its cash flow generation capacity, showed a recovery in 2022 surpassing the pre pandemic level, to EUR 498.4 million (including IFRS 16), a 20.7% increase compared with the 2021 figure. The recovery was driven by the good performance of the management activity (+33.4%), with turnover increase in all three segments, particularly the apart-hotels that was the mostly impacted by the pandemic. In addition, turnover from the property portfolio grew 8.7%, while turnover from development activity (construction and sales to investors) slightly decreased.

Disregarding the IFRS 16 impact, the Group's turnover increased by 23.9% in 2022, to EUR 547.8 million (also surpassing the pre pandemic level), showing resumption of activity in almost all business areas in 2022. The breakdown is showed in the table on the right.

Management Business Area

In 2022, to improve its capital structure, which was significantly impacted by the pandemic as detailed in the previous rating review reports, the Group sold the management rights, and common parts, of 13 mature and profitable residences for seniors, in addition to two

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

	2018	2019	2020	2021	2022
Management	327.2	358.0	275.3	337.1	449.6
Development	144.8	137.8	88.8	107.3	104.6
Property	10.6	13.6	17.7	19.1	20.7
Holding and not related to other business areas	28.2	31.1	32.8	37.5	36.8
Intergroup	(47.0)	(54.5)	(52.1)	(58.9)	(63.9)
Total	463.9	485.9	362.4	442.2	547.8

Notes: (*) Figures before the IFRS 16.

Sources: Groupe Réside Études.

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 reduce debt). Even after these sales, the number of accommodation units managed by the Group maintained its increasing trend (2.0% increase, compared with 7.1% in 2021), reflecting the continued development of new residences. In fact, the continued Group's growth strategy led to the opening of 19 new residences in 2022 (compared with 20 in 2021, following a slow down due the pandemic). Thus, in December 2022, the Group managed 239 residences (close to the figure in June 2022) 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 (a decrease compared with 19.4% in June 2022, due to the sale mentioned above). We should highlight that the residences for seniors have led the growth strategy, with 12 new residences in 2022 and 7 (from a total of 12) in the YTD August 2023, i.e. 61.3% of the total of the new residences in these periods.

The average occupancy rates of the residences under management and operation by the Group had an improvement in the latest periods under analysis, as detailed below:

- Residences for students and mixed residences for students/aparthotels – these residences had an increase of occupancy rates, namely in the 2H2022 with a good start of the 2022/2023 university year, leading it to reach occupancy rates in December 2022 above the ones before the pandemic. The average occupancy rate of the student segment in the full year of 2022 was c. 90% (i.e. similar to the one in 2019). In YTD August 2023, the average occupancy rate remains at the same level of the full year of 2022, with an improvement in the summer months as many students maintained their lease to avoid the risk of losing it, in a context where there is scarcity of accommodation. This improvement in the summer performance and a better start of the 2023/2024 university year, compared with the previous one, leads to expectations of an improvement of the full year of 2023 occupancy.
- Residences for seniors – the residences in operation for more than one year recorded an improvement of occupancy rate in 2022. However, considering the significant number of new residences that opened in 2022, the average occupancy rate in this segment was c. 69% in 2022 (compared with c. 73% in 2021). In the YTD August 2023 period, the occupancy rate was 59.8%, close to the 60.4% from the same period in the previous year, but below the 64.5% budgeted. The Group is taking measures to increase it, namely through the optimization of its marketing team, and expects an improvement in the last four months of 2023. 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 penalizes the average occupancy rate.
- Aparthotels – showed a significant recovery of the activity since the second quarter of 2022 (the 1Q2022 was still negatively impacted by the pandemic), leading to a return to occupancy rates at the pre pandemic level. Thus, the average occupancy rate improved to 68.4% (from 51.3% in 2021, i.e. closer to the 73.1% in 2019). YTD August 2023 average occupancy rate is not yet available due to a lack of information driven by an information technology (IT) issue of the external reservation system (since May until mid-September), which is already fixed. In the Group's view, this IT led to losses of turnover and EBITDA, thus it is preparing a claim for compensation. Important to note that there was no break in terms of client's information, so no problems with data protection.

Still regarding the aparthotel segment, the one most affected by the pandemic, it is worth mentioning that the Group decided not to renew the management contracts at the end of March 2021 of the Relais Spa Roissy, located close to the Charles de Gaulle airport, that was significantly impacted by flight restrictions during the pandemic and where the Group never achieved the expected performance. In 2022, the Group signed an agreement with investors that compensated them for the suspended rents during the pandemic period through the assignment of operational assets of the residence and recorded EUR 5.9 million losses related with this aparthotel. For 2023 it is projected an insignificant loss related to staff costs to complete the process. In ARC's view this process proves the Group's ability and willingness to stop losses when necessary, limiting the negative impact on its financial structure.

The increase of occupancy rates in 2022 in the three segments was coupled with updates of prices to cover increasing costs in a context of high inflation. Thus, in aparthotels the average price in 2022 slightly surpassed the pre pandemic level. In the residences for students and mixed residences for students/aparthotels segment the average price in 2022 also somewhat increase (after already beating the pre pandemic level in 2021). The average price of rents and services provided in the residences for seniors increased by 8.7% in 2022 (and c. 24% above the average price in 2019, as a result of continued update of prices applying a new price grid more in line with the market level).

The revenues from the management business area are clearly the main source of the Group's revenues. They accounted for c. 82.0% of total turnover, before IFRS 16, in 2022 (an increase compared with c. 76.0% in 2021). In 2022 and in the YTD August 2023 their evolution, and the breakdown by segment, was the following:

- 33.4% increase of revenues in 2022, to EUR 449.6 million, with positive growth in all segments, but with special emphasis on aparthotels. Revenues from aparthotels showed the most positive performance, increasing by 52.3% (thanks to the significant recovery of activity) to EUR 143.8 million. Revenues from residences for seniors grew by 39.5%, to EUR 136.2 million, with limited impact from the sale of the management rights of 13 residences in middle of December. The residences for students, usually a resilient segment, have showed a 20.6% increase in revenues, to EUR 137.4 million (with no impact from the sale of two residences by the end of December). The international activity (aparthotel and residence for students) contributed with EUR 10.9 million for revenues in 2022, a 41.6% increase compared with the 2021 figure, but still with a very limited relevance in the overall revenue of the Group, proving its almost full dependence from the French market.
- The YTD August 2023 revenue numbers are not available yet, due to the mentioned problem in the aparthotels. For the other segments, it was registered a 10.4% increase in the revenues from the student segment, to EUR 82.7 million, while the revenues from residences or seniors rose by 31.8% (24% in comparable terms), to EUR 69.6 million.

Development Business Area

In the pandemic context, the deliveries of programmes and the progress of works were disturbed leading to a low level of supply in 2022, compared with the previous years. As of the end of June 2023, the supply of accommodations to sell to investors increased by c. 10.8%, compared with June 2022, to 3,294 accommodation units, and remained the same as of the end of August 2023, related to 35 development plans undergoing marketing and construction. 28 of these development plans are for seniors (accounting for 80.0% of total, reflecting the focus in this segment), 4 for aparthotels and 3 for residences for students.

It should be noted that more than 85% of the accommodation units of these 35 development plans undergoing construction are already reserved under “Ventes en l'état future d'achèvement” - 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 and with builders trying to find alternative materials to mitigate the cost increase on the materials cost side. Thus, the Group expects to generate positive margins in the development plans, at a similar level to those obtained in the residences whose completion took place in 2022 and in the 1H2023. In addition, the Group has also delayed the commercialization in some developments, in a context of weak demand.

The current context of increasing interest rates, that make the investment in the residences developed by the Group and by other players comparatively less attractive, and the economic uncertainty led to a strong slowdown in the commercialization activity. This slowdown is felt both at the individual private investor level and at the institutional investors level. The maintenance of this retraction in the market might lead the Group to delay the start of construction of part of its portfolio as the Group only enters the construction phase after the commercialization levels reach a threshold that makes it secure to start the construction.

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, not counting the programmes in co-promotion that are recorded by the equity method, recorded a small increase in 2022, to EUR 89.1 million.

Property Business Area

The Group's property portfolio comprises investment property (residences in exploration) and exploration 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.

As of December 2022, the Group's property portfolio value was EUR 355.4 million, a decrease compared with EUR 398.6 million in 2021, mainly because the sale of assets, comprising two residences for students and common spaces of 13 residences for seniors. Without the sale of these assets, its property portfolio value would be stable in 2022. Even, in a conjuncture of high interest rates, this portfolio recorded c. EUR 2.4 million of fair value gains (EUR 4.2 million in 2021). Globally, its property portfolio comprises:

- EUR 225.8 million of investment property, mainly comprising residences for students and three aparthotels. There was a decrease compared with the EUR 252.6 million from 2021, due to the mentioned sale of two residences for students; and
- EUR 129.6 million of exploration assets, of which EUR 6.6 million in progress recorded at historical cost, also a decrease compared with EUR 146.1 million in 2021 because of the sale of common spaces of residences for seniors.

The turnover from the property portfolio (rentals received from the management side of the Group) increased by 8.7% in 2022, to EUR 20.7 million.

2022 CONSOLIDATED FINANCIAL STATEMENTS

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. The 2022 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've 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 2022 were the following:

- The Group's turnover increased by 20.7% in 2022, to EUR 498.4 million, while its EBITDA grew by 58.4% to EUR 142.0 million, thus, its EBITDA margin improved to 28.5%, from 21.7% in 2021;
- Before IFRS 16, the Group's turnover increased by 23.9% to EUR 547.8 million, 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 disregarding IFRS 16, was 0.6% (compared with -7.1% in 2021, but still behind the EBITDA margin pre pandemic of 2.9% in 2019); and
- The EBITDA performance by business area showed improvements in the three business areas, particularly from the management business area (still negative, but significantly better than budgeted thanks to the remarkable recovery of aparthotels), as detailed below:

- The EBITDA from the property business area, before IRS 16, was EUR 16.5 million, improving on the EUR 15.9 million from 2021.
- The EBITDA from the management business area significantly improved to EUR -4.0 million, from EUR -37.5 million in 2021. By segments:
 - The aparthotels segment, that was the most affected by the pandemic, returned to a positive EBITDA of EUR 0.7 million, i.e. close to EUR 1.1 million reached in in 2019 (pre pandemic level). The EBITDA reached in 2022 was not yet enough to cover the capex of maintenance and interest expenses, which was mainly covered by the TSDI, that also covered expenses related to the pandemic.
 - The residences for students, the more resilient segment but that was also somewhat impacted by the pandemic, showed a good performance reaching EUR 12.5 million EBITDA, compared with EUR 1.3 million in 2021 and above the budgeted figure. We should note that in 2022 the EBITDA clearly surpassed the EUR 7.1 million reached in 2019, in a context of 11.7% increase of the number of accommodations units between 2019 and 2022, thus benefiting from economies of scale.
 - The residences for seniors continued to be the activity with the most negative EBITDA generation, but the explanation resides on the phase of the business cycle that most of this portfolio is, with an important number of residences opened recently (this activity generates negative EBITDA in the first years, despite the efforts made to shorten the time to reach the break-even point). Even so, there was an EBITDA improvement to EUR -19.6 million in 2022, from EUR -27.4 million in 2021 and was marginally better than budgeted. Worth to mention that the Group is implementing measures to improve the profitability of the residences for seniors, namely through a more flexible cost structure and a reinforcement of cost control.
- The EBITDA from the development business, also impacted by the pandemic, improved in 2022 but was still negative (EUR -1.9 million, compared with EUR -6.3 million in 2021), failing to reach the projected equilibrium.

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

	2019	2020	2021	2022
Profit and Loss:				
Turnover	(36.1)	(24.4)	(29.1)	(49.4)
EBITDA	102.2	127.3	120.8	138.5
EBIT	30.0	31.2	37.9	10.6
Interest Costs	44.1	46.9	51.5	45.0
Income tax savings	3.5	3.9	3.4	8.6
Net Profit	(10.6)	(11.8)	(10.2)	(25.8)
Balance Sheet:				
Rights of use of Accomodation Units	1,081.0	1,106.2	1,206.9	1,064.8
Deferred Tax Assets	3.5	7.4	0.0	0.0
Total Assets (Non-Current Assets)	1,084.5	1,113.6	1,206.9	1,064.8
Equity	80.0	68.3	35.4	9.6
Medium - Long Term Debt	931.6	963.5	1,065.5	943.0
Short - Term Debt	72.9	81.9	94.1	108.9
Total Debt	1,004.5	1,045.4	1,159.6	1,051.9
Deferred Tax Assets	0.0	0.0	11.8	3.2
Total Liabilities (without Equity)	1,004.5	1,045.4	1,171.4	1,055.1

Sources: Réside Études Annual Reports.

INTEREST COSTS AND COVERAGE RATIO

The Group's financial costs net of financial gains decreased, by 15.8%, to EUR 58.0 million in 2022, mainly thanks to the decrease of financial costs related to the IFRS 16 impact (which fell to EUR 45.0 million, from EUR 51.5 million, as shown in the table above) and financial gains related with a EUR 3.8 million one-off gain (without cash impact) due to the valorisation of a swap contracted to cover the interest risk of TSDI. In opposite, in 2021 was recorded an one-off financial cost regarding Relais SPA Roissy Park, of EUR 1.6 million. Thus, excluding the one-off items and before the IFRS 16 impact, its financial costs net of financial gains would have increased by 7.1%, to EUR 16.7 million. It is worth to mention that the Group's debt is mostly at fixed interest rate or capped (except for the short-term debt related to development), which leaves it with a reduced exposure to interest rate risk in a context of increasing interest rates.

Before IFRS 16 the coverage of net interest costs by EBITDA became positive in 2022, 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. It should be noted that the Group's net interest cost included interest costs related to the debt to finance its property portfolio (EUR 8.7 million in 2022 compared with EUR 6.9 million in 2021). The interest costs related to its property portfolio are covered by the EBITDA generated by the portfolio and somewhat

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

		IFRS 16	IFRS 16	IFRS 16	IFRS 16
	2018	2019	2020	2021	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
EBIT	21,857	32,694	(29,431)	(775)	24,419
FINANCIAL COSTS NET OF FINANCIAL GAINS	8,140	55,981	60,437	68,800	57,953
FINANCIAL COSTS NET OF FINANCIAL GAINS, BEFORE IFRS 16	8,140	11,840	13,536	17,256	12,953
NET PROFIT	11,789	(17,282)	(67,477)	(53,105)	(32,915)
CASH FLOW POSITION	16,944	61,399	29,136	24,138	80,961
EBITDA Margin (%)	6.6%	25.9%	25.8%	21.7%	28.5%
Net Return on Turnover (%)	2.5%	(3.8%)	(20.0%)	(12.9%)	(6.6%)
Payout Ratio (%)	15.3%	0.0%	0.0%	0.0%	0.0%
Coverage of Net Interest Costs by EBITDA (x)	3.7	2.1	1.4	1.3	2.5
Coverage of Net Interest Costs by EBITDA (x), BEFORE IFRS 16	3.7	1.2	(3.0)	(1.8)	0.3

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

Sources: Groupe Réside Études Annual Reports.

decreased to 1.9x in 2022 (from 2.3x in 2021). The net interest costs related to the Group's remaining financial debt, excluding the one-off items, stabilized in EUR 8.4 million in 2022.

NET PROFIT

The consolidated earnings before taxes improved in 2022 to EUR -33.5 million, from EUR -69.6 million in 2021, remaining negative and still higher than in 2019 (EUR -23.3 million). In 2022 the saving of income taxes was less significant than in 2021, leading to a EUR -32.9 million net profit, an improvement from EUR -53.1 million in 2021.

Before IFRS 16, the consolidated net loss significantly improved in 2022 to EUR -7.1 million, from EUR -42.9 million in 2021. Compared with the business plan analysed in the previous Rating report there was a small deviation of EUR -1.4 million, mainly reflecting a better than forecasted operational evolution (namely of EBITDA) that was offset by a consequent higher tax burden and lower non-recurrent results regarding sale of assets and management rights of residences.

FINANCIAL POLICY:

ASSETS AND LIABILITIES

The Group's total assets were EUR 1,890.5 million at the end of 2022 (80.5% non-current assets and 19.5% current assets), recording a 6.3% decrease, equivalent to EUR 128.1 million, compared with the end of 2021. This decrease, which reversed the growth trend in previous years, was mainly driven by the sale of management rights of residences for seniors, that led to the reduction of utilization rights in accordance with IFRS 16 by EUR 84.5 million, on top of the decrease of the investment portfolio value (mentioned above). Contrary to the general evolution, we should highlight the increase of the following assets:

- cash and cash equivalents, by EUR 39.1 million, to EUR 158.2 million, a very comfortable level;
- non-current financial assets related to the valorisation of swaps, to EUR 11.9 million; and
- accounts receivables, by EUR 9.5 million, to EUR 50.2 million, related with the turnover increase, while the doubtful accounts receivables increased to EUR 5.3 million, equivalent to 9.6% of total, which was 100% covered by allowance.

The cash and cash equivalents increase in 2022 came mainly from the inflow from the sale of assets and management rights (EUR 69.2 million) and the issue of TSDI (EUR 58.7 million, net of fees). In opposite, it continues to present a negative cash flow position before IFRS 16, of EUR -17.7 million (although an improvement compared with EUR -48.7 million in 2021), and continues to invest to reinforce its property portfolio and other fixed assets (EUR 23.5 million of investment in 2022, a clear decrease compared with the EUR 35.1 million from 2021). In addition, cash and cash equivalents were reduced due to the payment of debt contracted to finance its investment property, namely linked to the assets sold, and by the working capital requirements change (by EUR -21.4 million, due to the payment of social costs and EUR 6.0 million of rents deferred in the previous pandemic context).

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

Group's gross debt decreased by 8.9% in 2022, to EUR 1,535.6 million comprised of:

- EUR 1,051.9 million (EUR 1,159.6 million in 2021) - lease obligations recorded in accordance with IFRS 16 (89.6% of which maturing at medium-long term); and
- EUR 483.7 million of other financial debt (compared with EUR 526.7 million in 2021), including the following:

- EUR 399.7 million - contracted at medium and long-term (vs EUR 450.4 million in 2021), including bank loans, bonds, PGE loans, mortgage loans and financial leases to finance its fixed assets, namely its property portfolio. At the end of 2022, EUR 43.4 million of this debt (10.9% of total) was recorded as short-term debt, while 50.6% was recorded to mature in 1 to 5 years and the remaining 38.5% was recorded to mature at more than 5 years. We should note that in July 2022 the Group improved its debt maturity through an agreement with the bondholders' for a two-years extension of the "Euro PP 2023" maturity, of EUR 50.0 million, to February 2025. The "Euro PP 2026" of EUR 42.4 million will mature in December 2026.

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

		IFRS 16	IFRS 16	IFRS 16	IFRS 16
	2018	2019	2020	2021	2022
TOTAL ASSETS	578,217	1,775,110	1,930,384	2,018,598	1,890,511
NET WORKING CAP. REQUIREMENTS (NWCR)	57,250	72,392	(22,308)	(2,479)	1,181
NET FINANCIAL DEBT	272,730	1,361,881	1,378,895	1,567,216	1,377,469
NET FINANCIAL DEBT, BEFORE IFRS 16	272,730	357,409	333,509	407,588	325,544
Net Financial Debt / EBITDA (x)	8.9	11.7	15.8	17.5	9.7
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%
Liquidity Risk	100.0%	100.0%	0.0%	100.0%	100.0%
Current Assets Ratio	117.4%	102.8%	118.0%	68.9%	97.6%
Acid Test Ratio	93.1%	82.5%	105.9%	58.5%	86.6%

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

Sources: Groupe Réside Études Annual Reports.

- EUR 68.0 million - securitisation of receivables (from residences for students and for seniors) to diversify its sources of funding (an increase versus EUR 61.9 million in 2021). In the past this transaction had one year maturity and was always renewed. Currently, the Group intends to renew these transactions by the end of 2023, increase its amount to EUR 90 million (a EUR 20 million increase against the current maximum) and increase its maturity to 3 years (and maintain them at least until 2030). Considering the Group's strategy and its proven ability for the usual annual renewal, for analysis purpose ARC considered the securitisation of receivables as long-term debt.
- EUR 16.0 million - bank overdrafts (EUR 14.4 million in 2021), related to the development of new residences.

The Group's short-term ex-IFRS 16 related financial debt at the end of 2022, assuming the expected success of the securitisation of receivables renewal, was EUR 59.4 million (comparable with EUR 38.8 million in 2021), which would be covered 2.7x by cash and cash equivalents, a comfortable level (despite lower than the 3.1x from 2021).

In the YTD August 2023 period the Group's cash and cash equivalents decreased by EUR 76.1 million, namely due to the negative free cash flow from activity in this period, the payment of Covid-related costs whose payment was deferred in previous years, payment of debt and investment regarding operational assets for its property portfolio. However, the expected inflow from the open of the share capital of its main subsidiary in the residences for seniors to a strategic partner, in addition to the sale of operational assets, 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 and the Group has complete flexibility in terms of repayment.

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 196.4 million in 2022, compared with EUR 248.9 million in 2021, contracted on a per asset basis, considering the expected revenues of the property (rents from the management entity, which belongs to the Group). The decrease of debt was driven by the sale of assets, in addition to the debt repayment plan. The LTV of the debt net of lessee advances on its property portfolio improved to 54.6% at the end of 2022 (compared with 61.3% at the end of 2021), thanks to the repayment of debt and the fair market value increase of its property portfolio - a reasonable LTV ratio.
- To finance the development business area - EUR 16.0 million in 2022 (bank overdrafts, mentioned above), versus EUR 14.4 million in 2021. Considering the cash and cash equivalents of the subsidiaries that operate in this business area, the net debt increased to EUR 9.2 million (from EUR 1.2 million in 2021), due to the number of programmes in development and its sale status. In the 1H 2023, this net debt decreased by 16.0%. Usually, the repayment of this debt will be made with the proceeds of the phased payments received from the buyers of accommodation units (according to VEFA contract) - 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 191.1 million in 2022 (that somewhat decreased compared with EUR 198.2 million in 2021), namely bonds and the PGE loans. In the 1H 2023 this debt decreased to EUR 178.4 million, mainly due to payment of EUR 8.8 million PGE loans and the sale of the management rights of one residence for seniors in the beginning of 2023 and related operational assets. Therefore, its service of debt is strictly linked to the Group's EBITDA.

The Group's ex-IFRS 16 related 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 (by EUR 39.1 million), as abovementioned. Considering the IFRS 16 related debt the Group's net financial debt also decreased, by 12.1%, to EUR 1,377.5 million in 2022.

Before IFRS 16 impact, 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 the -13.1x from 2021. Considering the data provided by the Group, 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. On top of that, the LTV ratio of 54.6% at the end of 2022 continues to present a considerable margin, for the possible sale of assets if needed or decided by the Group. In fact, it projects some sale of assets in the 2H 2023, but always ensuring a property portfolio value, net of this specific debt, of more than EUR 130 million (compared with 161.4 million in December 2022).

The bonds “Euro PP 2025” and “Euro PP 2026” include a gearing ratio covenant (based on specific 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 continued to be comfortably met, being at 0.37x and 0.30x in December 2022.

	2018	2019	2019	2020	2020	2021	2021	2022	2022
	Euro PPs	Euro PP	Euro PP	Euro PP	Euro PP	Euro PP	Euro PP	Euro PP	Euro PP
	2019/2023	2023	2026	2023	2026	2023	2026	2025	2026
Net Debt (Ratio Gearing Euro PP)	39.1	44.0	29.7	2.5	(11.1)	24.6	14.9	33.7	27.5
EBITDA	30.5	14.2	14.2	(40.1)	(40.1)	(31.2)	(31.2)	3.4	3.4
Net Debt / EBITDA	1.28	3.10	2.09	(0.06)	0.28	(0.79)	(0.48)	9.91	8.09

Notes: Before IFRS 16.

Sources: Groupe Résidence Études.

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. Four of the five swaps contracted are recorded as hedging instruments, while the fifth is recorded as speculative, according to IFRS. At the end of 2022, these hedging instruments had a EUR 10.1 million positive impact (net of income taxes) in equity (in opposite with a net latent loss of EUR 1.2 million in 2021). On the other hand, the swap recorded as speculative (to cover the interest rate risk of TSDI) led to a EUR 3.8 million financial gain (and a EUR 2.8 million impact on the net profit). Floating rate debt related to 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) significantly increased in 2022, by 73.5%, to EUR 101.1 million in December 2022, slightly surpassing the December 2019 figure. For this improvement, mainly completed the following:

- The issue of EUR 60.0 million TSDI (EUR 58.7 million of net impact), with undefined maturity, which is considered quasi-capital according to the IFRS;
- 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; and
- The valorisation of swaps contracted to mitigate the interest rate risk, with a total impact on equity of EUR 12.9 million, as mentioned above.

Thus, the equity/assets ratio improved to 5.3%, from 2.9% at the end of 2021, still far from the 9.7% registered in 2019. Before the IFRS 16 impact, this ratio also improved to 11.1% in 2022 (from 2.8% in 2021, still below the 13.4% from 2019).

The Group intends to further improve its equity in the short-term, namely through the open of the share capital of its main subsidiary in the residences for seniors to a strategic partner, to also finance the expansion of activity in this specific business area. In the long term, depending on the market circumstances, the Group also considers the possibility of opening the parent company's share capital to a minority shareholder. 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 2023, the Group updated its business plan for the 2023-2030 period, without considering 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 most of the existing portfolio.

For 2023 the Group forecasted 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 (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.

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 heightened 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

Résidé Études Initial Rating Report (12 September 2013)

Résidé Études Previous Report (13 October 2022)

PERIOD OF ANALYSIS AND INFORMATION ANALYSED

PERIOD OF ANALYSIS

Historic: 2018 to YTD August 2023

Forecast: 2023 – 2030

INFORMATION ANALYSED

Résidé Études 2022 Annual Report

Financial Debt Details

Résidé Études Interim Information

Résidé Études 2023-2030 Business Plan

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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