Réside Études Investissement S.A.

Issuer	Issuer Rating	Outlook
Réside Études Investissement S.A.	BBB+ Medium and Long Term	Negative
	Issue Rating	
	BBB+ Medium and Long Term	Negative

RATING RATIONALE

ARC Ratings, S.A. (ARC Ratings) affirms the "BBB+" rating assigned to the medium and long-term financial commitments of Réside Études Investissement S.A. (Réside Études) and to a bond loan with an outstanding amount presently of EUR 18.5 million, after a partial repayment in advance on 18 February 2016. This rating action is based on the resilience and adjustment capacity demonstrated by the company in 2015 in an unfavourable context for the aparthotel activity and opening a considerable number of residences with impact on lower generation of funds. The new bond loan carried out on February 2016 improved the Group's debt profile and allowed to capture funds for a greater expansion of activity. However, the pursuit of a strategy of more substantial boost of the property portfolio will lead to greater leverage in the coming years and, given that investments need time to be profitable, a more gradual improvement in medium and long term debt coverage by the cash flow position, aspects that lead to ARC Ratings to revise the outlook to negative from stable.

GROUP PROFILE

Réside Études Investissement S.A. is the holding of a Group created in 1989 and headquartered in Paris, France. This Group initially mainly focused on assisted residence for students, it has since diversified and currently ranks amongst leaders in the three main assisted residence markets in France: for students; hotel or tourism residences (mainly city residences directed to business clientele); and for non-disabled elderly people (since 2007, that has experienced a major boom). The Group has demonstrated the ability to enter into operation of new residences annually, in the three segments, benefits from a national presence, particularly in large urban areas.

The Group main activities are the real estate management operation, the real estate development and the creation of a property portfolio (including investment property and operation assets). At the end of April 2016 the Group managed 22,854 accommodations units (in the value of around EUR 2.2 billion), of which: 60.6% for students; 31.6% in hotel or tourism residences (aparthotels from 2 to 5 starts, in the majority of large French cities); and 7.7% for non-disabled elderly people (seniors) near the centre of cities. It should be highlighted that its economic model allowed transforming a capital intensive activity into a model less capital intensive, reason being the large majority of accommodation units managed by the Group are held by investors (more than 20,000 private investors) and less than six per cent of the total (in the value of EUR 125.3 million, as investment property) is owned by him.

RATING DATE
17 August 2016

RATING VALIDITY
17 August 2017

INITIAL RATING
12 September 2013

LAST REVIEW
5 October 2015

NEXT REVIEW DATE
17 August 2017

PERIOD OF ANALYSIS
Historic: 2011 to April 2016
Forecast: 2016 to 2020

INFORMATION ANALYSED
Réside Études 2015 Annual Reports
Financial Debt Details
Réside Études Interim Information
Peers Annual Reports

METHODOLOGY APPLIED
ARC Ratings Non Financial Corporations' Rating Methodology available at www.arcratings.com

ARC CONTACT DETAILS

Isabel Fernandes
Lead Analyst
isabel.fernandes@arcratings.com

Emma-Jane Fulcher
Chief Ratings Officer & Panel Chairperson
emma.fulcher@arcratings.com

180 Piccadilly
London, W1J 9HF
UNITED KINGDOM
Tel: +44 (0) 203 282 7594
Website: www.arcratings.com

The main characteristics of the Group's activities are the following: long term activity, where project development requires 2.5 to 3 years on average and a minimum of 9 years signed leases with private investors (after the sale of the accommodation units to them); the residences' marketing phase should be over a period of 18 months with delivery within 24 months from the start of construction; the search of tenants in order to obtain the best occupancy rate of the accommodations units, the maintenance and management of residences, where the Group is responsible for invoicing and collecting rents.

The 2015 Group's turnover reached the maximum of EUR 342.4 million, of which around 75% came from the real estate management operation.

RÉSIDE ÉTUDES' KEY RATING DRIVERS ARE THE FOLLOWING:

- Experienced Management Board - Réside Études Investissement is controlled by an experienced management board that has been in this business for over twenty years. Additionally, the shareholders' agreement allows the transfers among shareholders, hence ensuring the stability of the shareholder structure.
- The Strategy of the Company – The strategy of the Group is mainly based on organic growth. The positive results, such as the results of investment property activity, the development activity and the student residence segment (more stable) can offset losses arising from the launching of new residences (as happened in recent years) and overcome losses from 2015 events with negative impact in the aparthotel business. The Group also has shown resilience and capacity to absorb losses from activities that are shut down. In 2015 the consolidated EBITDA reached EUR 18.9 million and the net profit, after minority interests, amounted to EUR 5.2 million, in a context of 12.6% of accommodation units managed entered into operation in 2014 and in 2015 (i.e. have not yet reached cruising speed).
- Business expansion forecasts - The Group's forecasts point to an increase of accommodation units under management to 29,375 in 2020 (+36% compared to 2015, of which more than half for seniors), through organic growth mainly in France, and a significant increase in the property portfolio. Note that the Group has the capacity to pilot its activity and, if necessary, to adjust their investment strategy, as occurred in the past.
- High demand for accommodation - There is a shortage of residential housing construction in France at the same time the country has no population growth problems and continues to receive international students and to be a hub of international business. Tax on revenues from assisted residences has long benefited from tax advantages, which have boosted this market.
- Conservative Dividend Distribution - The dividend distribution policy remains conservative, with approximately EUR 1.2 million a year being distributed. The Group foresees the maintenance of this strategy.
- Debt Structure – Note that most of the Group's debt is contracted in the medium and long term (at fixed interest rates) to finance the property portfolio. Short term debt rose punctually to 17.6% (of total) at the end of 2015 and corresponds mainly to banks overdrafts particularly to finance real estate development transactions. The Group benefits from a large pool of banks to finance its operations. The net debt increased by EUR 31.1 million in 2015, to EUR 166.5 million, in the context of investment (by EUR 26 million), and positive net working capital requirements (NWCR) variation by EUR 11.4 million. This framework led to a decline in 2015 debt coverage ratios, having the net financial debt / EBITDA ratio increased to 8.8 times from 5.9 times, while the coverage ratio of borrowing costs by EBITDA stood at 2.7 times (2.9 times in 2014). In February 2016 the Group was successful in improving its debt profile through a new bond loan, which also allowed attracting new resources to ensure its expansion. Furthermore, ultimately, the Group could dispose of part of its property portfolio, if needed in order to fulfil its financial commitments.

THE KEY CONSTRAINTS ON RÉSIDE ÉTUDES' CREDIT RATING ARE:

- Economic growth in France – In the recent past the French economy recorded low growth rates and unemployment rates to the order of 10%, albeit with a positive trend. On May 2016 the International Monetary Fund considered France's economy to be recovering, but major efforts are still needed to foster job creation (given that much of France's high unemployment is structural) and put public finances on a more sustainable footing. This organism's forecasts point to growth rates close to 1.5% in 2016 and to an average of 1.75% over the coming five years. These evolutions and the taxation (taxes on income and consumption) have an impact on the household disposable income (which strengthened growth to 1.4% in 2015, +0.3 pp year-on-year). A decline in the household disposable income would affect occupancy rates in residences and the gap between rents received from tenants and rents paid to investors. It must be noted that the Group continues to give high importance to maintaining over time the quality of the residences and offers a greater number of services in the face of competition, that help maintain better rates.
- Changes in taxation - Namely rise in VAT Rates, as observed in 2014, applicable to furnished rented units. The Group was unable to fully pass on VAT on rents, as a result, the main activity of the Group was affected, mainly in the student residences sector.
- Changes in investment decision-making factors - These changes will have an impact in demand for the acquisition of new accommodation units and lease renewals. Taxation is one of the most important factors affecting investment, but the Group's products as eligible investments for professional or non professional furnished rental taxation, statute that has been long-lasting. Note that the Group has a thorough insight of the relevant legal and tax frameworks. It should be emphasized that the Group maintains large renovation rates for leases (next to 96% in the oldest leases contrasting with more than 9 years) benefits from never having missed a payment to investors. In addition, the contracts entered into with investors give the Group the right to renew the leases, which cannot be refused except if investors support the cost of an indemnity (such as the market value of goodwill, which can cover 2 to 3 years of rents).
- Changes in the law - Possible changes would result in an increase in maintenance, refurbishment and operation costs of assisted residences. The establishment of a rent control system in large cities, although that does not apply to the residences under management by the Group could have an impact on rents in practice.
- Rising competition - The entrance of new market players and competition from existing players wanting to gain market share may be affecting return levels. Note that the Group continue to be the second player in the assisted residence for students and in the urban hotel or tourism residences, and want to grow significantly on the assisted residence for non-disabled elderly people. It should be highlighted that the Group is able to attract partners for the real estate development (co-promotion), allowing him to share the risk of this phase and grow faster in the activity of real estate management, a long-term activity and a stable source of revenues. The marketing of accommodation units developed by third parties, which will be managed by the Group, also increase the main activity. Note that the Group's residences are well localized, have generally a higher quality service to competition, and the Group is prudent in the choice of land for new locations and in the marketing phase in order to optimise profitability in the future.

SHAREHOLDERS AND GOVERNANCE

Réside Études Investissement presents a stable shareholder structure, based on its Management. Mr. Philippe Nicolet, as President and founder, holding 75.4% of the share capital and Mr. Christian Verlaine and Mr. Robert Vergès, each hold 8.7%. The remaining shareholding is distributed amongst remaining senior staff (as a result of the Group's policy to retain its key leading cadres) and treasury shares (the last equivalent to 2.7% of the share capital).

In a growth environment, the Group has strengthened its management team and leading cadres, having the Réside Études board was extended to 8 members in 2015, from 6 in 2014. One of these members, Mr. Christian Verlaine joined the Group in November 1995 and retired in early February 2016, going to a non-executive director (and President of some subsidiaries). Their operational functions were taken over by Mr. Pierre Besnard (who joined the Group in January 2015, assuming the direction of the residences for seniors, and has extensive financial experience). In February 2016, to enable the Group to continue to benefit from the expertise and experience of Mr. Christian Verlaine, an assistance services and advice Convention was signed by the Réside Études Group with a company of which he is the President, for an indefinite period.

In order to rationalize costs, the Group began in 2015, and will conclude in 2016, a merger of several subsidiaries operating in the residences for senior's sector.

CASH FLOW GENERATION CAPACITY AND RECENT DEVELOPMENTS

The Group's development strategy led it to obtain the operation of 12 new residences in 2015, equivalent to 1,591 accommodation units (11 new residences in 2014, 1,290 accommodation units). By contrast with 2014, in 2015 the new residential included mainly residences for students (six, equivalent to 993 accommodation units), followed by four residences for seniors and two aparthotels respectively 413 and 185 accommodation units. In global terms, the Group has seen a 5.5% year-on-year growth in this portfolio under management, to 22,824 at the end of 2015. This trend continued in the first four months of 2016 with the operation of a new residence for seniors (107 accommodation units).

At the end of 2015 the Group continued to manage an insignificant portfolio of residences for future ownership purposes, with no associated services (under brand name «Les Activiales»), resulting in development opportunities. The Group initiated several years ago a process to transfer their management to external rental agencies. Thus, the number of accommodation units under management in these asset categories decreased to 79 at the end of 2015 (from 224 in 2014) and was nil at the end of April 2016.

At the end of April 2016, globally, the Group held the management of 187 residences with services (without considering the impact of the existence of mixed residences for students and aparthotels), of which 98 for students (with 13 852 accommodation units), 71 aparthotels (with 7 233 accommodation units) and 18 for seniors (with 1 769 accommodations units).

The average occupancy rates of the residences under management by the Group developed as follows:

- residences for students (marketed mainly under brand Les Estudines, and also under brand Stud'City) - despite the opening of 6 new residences in 2015 (majority in the second semester, in the university re-entry) remained stable around 88% and increased to 92.1% in the first four months of 2016.
- aparthotels residences (marketed under brand names Séjour & Affaires, Residhome and Relais Spa) – in 2015 decreased in the 2 and 3 starts residences (namely as a result of the opening of 2 new residences), to around 67%, and increased in the 4 and 5 stars residences (benefiting from the second year of exploration of three residences opened in 2014), to around 67% in four star aparthotels and to 72% in the aparthotels Relais Spa. In the first four months of 2016, the occupancy rate of the Relais Spa Roissy (a 5 stars) decreased to 58.6%, as a result of the climate of instability generated by the 2015 terrorist events. In turn, the occupancy rate of the Relais Spa de Val d'Europe remained stable around 67%. In this period, the occupancy rate increased in all other range residences, to between 60.3% and 66.1%.
- residences for seniors (marketed under brand name La Girandière and Victoria Palazzo, high range, recently

launched) - in the context of a significant opening of residences, decrease to 68% in 2015 and to 70% in the first four months of 2016. In comparable terms, the occupancy rate increased in 2015 (to around 93%) and in the first four months of 2016 (to 94.2%). The Group implemented in 2015 a new operational structure in this business segment, more appropriate to monitor their development.

Revenues from real estate management operation reached EUR 256.8 million in 2015, an 7.7% year-on-year increase. This expansion, almost in line with the observed in 2014, resulted primarily from the new residences put into operation in 2015 and also from the development that started operation in 2014. In absolute terms, the main contributor to the growth continues to be the aparthotel segment (+11.2%, to EUR 128.7 million) followed by the seniors segment (+22.3%, to EUR 23 million), while the revenues from students segment slightly increased (by 2.1%, to EUR 95.9 million).

In the first four months of 2016 revenues from real estate management operation amounted to EUR 73.2 million (+5.7% year-on-year). The three business segments presented expansion, which was more significant in residences for seniors (by 26%, benefiting from the appreciable increase in the number of residences) and in residences for students (by 7.3%). Globally in the aparthotels residences the revenues slight increase (+1.1%).

Regarding the marketing activity of the real estate development in 2015 the reservations from full development, co-promotion and marking programs for third parties recorded a small decrease by 4.4% in value (by 5.2% in accommodation units' number, to 854, identical to that achieved in 2013). On the contrary, the value of notary deeds signed, related only full development and co-promotion, recorded a significant increase by 33.9% (and by 22.9% in terms of units).

Benefiting from common expertise of the whole real estate construction-development chain, the Group delivered 6 programmes in 2015 (of which 2 in co-promotion) to generate profits for the Group of EUR 8.2 million (EUR 7.5 million in 2014). It is recalled that, due to the system of sale before completion ("Vente en État Futur d'Achèvement" - VEFA) the Group will receive the sale price in correlation with developments of the building works. Group's sales in real estate development, which directly dependent on the progress coefficient of the programs taken into account at 31 December, increased 6.5% year-on-year, to EUR 72.6 million in 2015. It should be noted that, given the considerable number of programs in co-promotion, if the proportional integration method was applied, instead of the equity method, the increase in the Group's sales in real estate development would have been around 19% (to EUR 95.6 million). In fact, the contribution of the co-promotion programs to the consolidated earnings before taxes increased almost 67%, to EUR 1.9 million in 2015.

At the end of April 2016 the Group had a significant number of development plans undergoing marketing and construction (28, including 12 in co-promotion), mostly for seniors (equivalent to three quarters), 3 for students, 2 aparthotels and 2 property projects in accession. The Group regularly controls the expected development plans margins. At the end of April 2016 the Group are also marketing three development plans for third parties, of which will be the management entity. Finally, it should be note that two real estate programs, an assisted residence for seniors located at rue de la République in Marseille and a residence for researchers and doctoral students in the quartier de Batignolles, in Paris, bought in VEFA for the Group's property investment are under construction. Once completed, these residences will be managed by the Group's management branch.

The Group's property portfolio value increased in 2015, by EUR 17.4 million, to EUR 176.9 million at the end of the year. This increase was primarily due to: the construction-regeneration of the residence located at rue de la République in Marseille (by EUR 8.4 million) and the signature of one VEFA for the residence in Paris Batignolles (first fundraising by EUR 2.1 million); the acquisition of operating properties (by EUR 3.6 million); and the evaluation of investment property at fair value which resulted in gains of EUR 2.8 million. It should be noted that the Group's strategic is to strengthen their property portfolio with a selective and quality projects. The turnover from real estate property stood at EUR 8.4 million in 2015, a 18.7% decrease compared to 2014. This decrease as a consequence of the transfer of exploitation of five social residences for students, from 1 January 2015, to the Association des Résidences Etudiantes de France, association of which the Group is a founding member.

On 7 and 8 April 2016, as scheduled and as part of the analytical process, ARC Ratings visited, on a sample base, nine residences under management by the Group to confirm their conditions. Generally, the visited residences are in good overall condition, and the Group carried out proper maintenance, in order to ensure its tenants an excellent perception of its products and services. At that time, ARC Ratings also met with senior management of Réside Études to discussed the 2015 Group's performance and expansion strategy.

The Group's turnover reached EUR 342.4 million in 2015, the highest of the period over analysis by ARC Ratings, as a result of an expansion of activity by 8.2% year-on-year. As mentioned, the 2015 expansion was mainly achieved from the real estate management operation and the real estate development, which continued to be the main contributors to the Group's turnover (by respectively around 75% and 25%).

Even in the context of newly started operation of a higher number of residences (which is characterized as deficient still during the tenants capture phase), while a similarly high number of residences was put into operation in 2014, and in a framework of aparthotels activity was negatively impacted by the climate of insecurity related to the terrorist attacks, the 2015 Group's EBITDA reached EUR 18.9 million. Compared to the Group's EBITDA obtained in 2014 there was a decrease, by 17%, mainly determined by the lower generation of funds from the real estate management operation business due to these temporary factors. Thus, in 2015 there was a more balanced contribution of the three business areas to the consolidated EBITDA. The EBITDAR is also worth noting, being a relevant indicator as far as Réside Etudes Group is concerned, since it measures EBITDA before taking into account rents paid to investors. In absolute terms EBITDAR rose by 2% to EUR 115.7 million in 2015. However, given the higher increase in turnover, EBITDAR as a percentage of turnover, decreased to 33.8% in this year (-2.0 pp compared to 2014 and the same level of 2013).

The 2015 Group's EBIT declined by 6%, to EUR 16.6 million, benefiting from the greater change in fair value of investment property (compared with EUR 1.1 million in 2014) and of the contribution of the co-promotion programs, in a context of lower provisions and small increase of the amount of depreciation and amortisation (mainly related to fixed assets).

Financial results improved to EUR -6.6 million in 2015, from EUR -7.4 million in 2014. It should be noted the decrease in financial expenses (by approximately 12%, to EUR 6.9 million). However, given the EBITDA decline was higher, the financial expense / EBITDA coverage ratio stood at 2.7 times (somewhat less than in 2014).

In 2015, additional costs, by EUR 2.3 million, came from an internal reorganization process, including EUR 1.8 million related to surplus of compensation due to employees, arising from results generated in internal asset revaluation, and EUR 0.5 million of registration fee. For analyse purpose, ARC Ratings treated these costs as non-current costs. In addition, the Group recorded non-current results from the construction activity developed by Compagnie de Bâtiment et de Maçonnerie SAS (CBM) by EUR -0.1 million net of taxes. Following the decision to shut down this activity, the last buildings were delivered in 2015. At the end of 2015 there was a provision of EUR 0.5 million for stopping CBM.

The consolidated earnings before taxes - excluding discontinuing activities and non-current results – stood at EUR 10.1 million in 2015. This value was approximately a quarter lower (equivalent to EUR -3.5 million) than estimated in the business plan analysed in the previous review (the previous business plan). This deviation was determined by the lower earnings from the real estate development business by EUR -5.2 million, namely as a result of no performing stock sales compared with an expected value of EUR 64 million. This difference came from the slight delay of one stock sale (for January 2016) and the option not to hold another sale stock and sell to private investors. In the real estate management operation business, the adjustment capacity of the cost structure allowed to limit the deviation to EUR -0.6 million. On the other hand, in the property investment business there was a positive deviation by EUR 2.9 million, of which EUR 1.8 million from change in investment property fair value.

The effective tax rate, including discontinuing activities, stood at 24.7% in 2015 (compared to 45.2% in 2014). This decrease was achieved by using of a tax provision (constituted in 2013/2014) related to a temporary surcharge for achieving a high level of consolidated turnover. Given that this surcharge was removed, the Group deemed this tax provision was not more necessary. The 2015 Group's net profit after minority interests reached EUR 5.2 million (+4.1% year-on-year).

FINANCIAL POLICY

The Group's total assets increased in 2015, by 11.6%, to reached EUR 384.5 million at the end of 2015. The main driver for this increase was the non-current assets (+ EUR 24.1 million), particularly the investment property, that has been reinforced by EUR 13.8 million, to EUR 140.0 million. It is also worth noting that the fixed assets also increased by EUR 9.2 million, as a result of the investment (of EUR 16 million) net of the annual amortization.

In addition, the current assets recorded a EUR 15.8 million increase in 2015, mainly due the rise of regularizing accounts related mostly to the real estate development activity and of real estate management operation. In the same direction, associated to the evolution of the development business, also increased the inventories (by EUR 2.9 million), the amount of trade accounts receivable (by EUR 3.2 million) and the trade payables (by EUR 5.9 million, almost offset these last increases).

In the context of significant activity in development business, the amount of deposits and cash reducing by EUR 7.4 million over 2014, to EUR 27.2 million by end 2015. This reduction partially offset the increase in others current assets, thus the non-current assets maintaining as the Group's main assets (around 57%).

The Group's cash flow position stood at EUR 8.4 million in 2015, less EUR 3.6 million compared to the expected cash flow position on the previous business plan. In this context, the Group had ability to adjust the investment plan, performing an investment of EUR 26 million (lower in EUR 4.8 million than the estimated). The significant increase on the regularizing accounts was crucial to the variation of NWCR by EUR 9.1 million in 2015, which was not foreseen. Thus, and with payments of dividends in line with estimated (EUR 1.2 million), the Group's net financial debt stood at EUR 166.5 million at the end of 2015 (+ EUR 31.1 million versus the end of 2014). Compared to the forecasted the net financial debt was higher by 4% (+ EUR 7.1 million).

The combination of a decrease in the Group's EBTIDA with the increase in the net financial debt, to finance the development business (and the variation of NWCR connected with it, both with a temporary nature) and strengthening of property portfolio, led to a temporary increase in the net financial debt / EBITDA ratio to 8.8 times in 2015, from 5.9 times in 2014.

The Group's medium long term debt increased, by EUR 8.1 million, to EUR 159.6 million at the end of 2015, mainly as a result of the reinforcement of the Group's property portfolio. The debt contracted in the medium long term had a long-term maturity - generally 15 years for real estate leases and 30 years for social housing loans for student residences. In 2015 the Group obtained funding with a 25-year maturity. At the end of 2015, EUR 81.4 million was payable between 1 and 5 years (including the EUR 44.0 million bond loan) and EUR 78.2 million after 5 years (which represents a slight improvement over the end of 2014). The profile of debt was improved with the new bond loan obtained in February 2016 (see below).

The Group's short term debt amounted to EUR 34.1 million at the end of 2015, i.e. 17.6% of total. This debt was composed mainly of banks overdrafts in an amount of 26.8 million and EUR 7.3 million of medium and long term debt that maturing in the short-term. EUR 20.7 million of banks overdrafts was to finance the real estate development. The most significant amount of these banks overdrafts related to a mixed program property project in accession and residence for researchers à Paris XIIème. Highlighted that at the end of May 2016 the debt associated to this project in accession decreased and currently 86% of their turnover is sold (the Group expect to deliver it in 2017). Regarding the remaining 15 development plans at the end of 2015 the Group predicts to deliver 6 in 2016 and 9 in 2017.

GROUP RÉSIDE ÉTUDES - FINANTIALS AND RATIOS (THOUSAND EUROS)

	2011	2012 Re	2013 Re	2014	2015
TURNOVER	318,352	282,352	313,092	316,366	342,389
EBITDA	16,970	19,106	23,357	22,790	18,872
EBITDAR	84,870	93,106	105,757	113,398	115,672
EBIT	17,025	16,534	20,661	17,628	16,601
FINANCIAL RESULT	(3,339)	(4,269)	(5,604)	(7,426)	(6,582)
NON-CURRENT RESULTS	0	(2,947)	(3,777)	(394)	(2,402)
NET PROFIT FOR THE YEAR, AFTER MINORITY INTERESTS	8,448	4,268	7,807	4,975	5,178
TOTAL ASSETS	299,439	299,044	351,741	344,601	384,548
NET WORKING CAPITAL (NWC)	34,916	34,420	62,402	58,600	46,916
NET WORKING CAP. REQUIREMENTS (NWCR)	34,847	20,428	31,086	43,584	54,970
NET CASH POSITION (NCP)	69	13,992	31,316	15,016	(8,054)
NET FINANCIAL DEBT	95,941	96,523	118,200	135,330	166,451
EBITDA as a % of Turnover	5.3%	6.8%	7.5%	7.2%	5.5%
EBITDAR as a % of Turnover	26.7%	33.0%	33.8%	35.8%	33.8%
OPERATING RETURN ON TURNOVER (%)	5.3%	5.9%	6.6%	5.6%	4.8%
Gross Cost of Borrowed Funds (%)	1.9%	2.1%	2.0%	2.9%	2.3%
NET RETURN ON TURNOVER (%)	2.7%	1.5%	2.5%	1.6%	1.5%
Payout Ratio (%)	14.2%	28.1%	15.4%	24.1%	23.2%
Coverage of Finance Borrowing Costs by EBITDA (x)	3.9	3.9	4.1	2.9	2.7
Net Financial Debt / EBITDA (x)	5.7	5.1	5.1	5.9	8.8
Equity (Incl. Minor. Int.) / Assets (%)	21.7%	22.3%	21.1%	22.3%	21.0%
Indebtedness (%)	78.3%	77.7%	78.9%	77.7%	79.0%
Financial Debt Struc. (S.T. Finan. Debt as a % of Total Financial Debt)	25.8%	17.5%	12.6%	10.9%	17.6%
Liquidity Risk	0.0%	0.0%	0.0%	0.0%	100.0%
Current Assets Ratio (Current Assets / Current Liabilities) (%)	128.8%	134.4%	158.9%	163.4%	139.1%
Acid Test Ratio ((Current Assets - Inventories) / Current Liabilities) (%)	110.1%	107.8%	127.5%	119.7%	103.0%

Notes:
Figures rounded.
(Re) 2012 and 2013 with reclassifications in order to compare with 2013 and 2014, respectively.
Accounts reclassified by ARC Ratings for analisys purposes.

Sources:
Groupe Réside Études Annual Reports.

At the end of 2015 deposits and cash was lower than the short term debt amount. That situation arises from the real estate development activity. The repayment of the related short term debt will depend on the successful completion of the real estate programs, which are monitored by the Group regularly. On this date the additional authorizations for development plans in progress amounted to EUR 47.4 million.

It should be highlighted that, given the good situation in the bond markets in France, Réside Etudes carried out a new bond loan, on 18 February 2016, in the amount of EUR 50 million with institutional investors. This bond issue will pay an annual interest rate of 4.5% and will mature on 18 February 2023 (7 years). On the same date Réside Etudes repaid in advance EUR 25.5 million of the bond loan issued on October 2013, which pays an annual interest rate of 5.2% and will mature on 23 October 2019 (6 years). Except for the interest rate and the maturity, the new bond loan presents the same clauses that the previous bond loan, which continue in force with an amount of EUR 18.5 million. Through the new bond loan, the Group extended the base of institutional investors, decrease the cost of debt and improve the debt profile. The new money, of EUR 24.5 million, will allow the Group to continue development.

Concerning the interest rates, the Group's medium and long term debt is preferably subject to fixed interest rate. For the floating rate medium and long term debt, the Group seeks customised solutions to cap or hedge these interest rates. The three swaps contracted by the Group are valued at their fair value in the Group's accounts. At the end of 2015 the latent loss related to these financial instruments amounted to EUR 2.0 million, with an impact on equity, net of the tax effect, of EUR -1.4 million (near the impact by the end 2014, EUR -1.5 million). As mentioned in the Rating Report, floating rate debt related to real estate development operations is not subject to interest rate hedging.

The Group's equity, taking into account the dividends to be distributed in the following year, increased by 4.4% in 2015, to EUR 80.3 million at the end of the year. However, the Group's largest assets growth leads to a slight decrease of the equity / assets ratio to 21.0%. Taking into account the importance of deposits and cash in the balance sheet, it is worth noting the equity / corrected assets ratio (where assets are deducted from deposits and cash) drop to 22.6% at the end of 2015.

Regarding the insurance policies subscribed by the Group, no material changes were made in relation to what was previously described in the Rating Report.

FORECASTS

Réside Études Group made the decision to also develop activity at a European level, in addition to the expected growth in France. In order to develop the international activity, it has created an international development and operational structure based in Brussels. After an extensive study, in earlier 2015 the Group signed a reservation for the acquisition of a residence aparthotel in Luxembourg, which notary deed should be signed in the second semester 2016. In addition, the Group has in progress a wide geographical prospection and have identified several concrete projects, notably in Belgium and Switzerland, without signature to date, thus not considered in the updated business plan.

The Group, in July 2016, updated its business plan for the period 2016-2020 (base scenario), based in 2015 verified and including the new bond loan. The main assumptions, by main Group's activities, was the following:

- expansion of the number of accommodation units in operation and management by 36% (equivalent to 7,713) to 29,375, through annual increases between 5% and 8%. The Group forecasts expansion in three business segments, more meaningful in accommodation units for seniors, which will more than tripled representing 20% of the total in 2020 in 61 residences. In aparthotels the accommodation unit's expansion will be 18% (to 24% of the total) while in accommodation units for students will be 17% (to 56% of the total), contributing to a more diversified mix of accommodation units (where for students still the majority, benefiting from the Group's history in this business segment). The number of accommodation units in operation and management was revised upwards (+12% in 2019) compared with the previous business plan.
- into operation of 50 residences assisted between 2016 and 2020 (compared to 35 in the 2015-2019 period in the previous business plan), mostly in 2017 (15), in 2018 (14), in 2019 (10) and 2016 (8). 28 of these residences will be for seniors, 14 for students and 8 for aparthotels. The accommodation units of these new residences will represent 55% of the increase of the number of accommodation units in operation and management expected to the period. Concerning marketing, it should be noted that the Group, in order to preserve the profitability of the main stable activity, only considered one stock sale of EUR 45.6 million in 2016 (already signed in earlier of the year), focusing on the sale to private investors with a target for accommodation units

sale annually above 1000 except in 2016 and 2018 (below the 854 achieved in 2015).

- reinforcement of the property portfolio by around EUR 170.0 million, of which: EUR 113.9 million in investment property, taking in account the programs in progress (Marseille République and Paris Batignoles) and the almost certain five projects (including a residence aparthotel in Luxembourg), in addition to a regular investment in the last years; and EUR 55.8 million in operation assets. Regarding the fair value of investment property, considered that yields would remain low until 2018 and will could ride up in 2019 and 2020, the Group forecasts a slight depreciation in accumulated terms.

The inversion of birth curves in the mid-1990s in France, towards high, suggests that the activity of residences for students will enter an upward phase. Thus, the Group expects a continuous and regular increase in demand in that segment of market over a long period. However, prudently, the Group considered a moderate annual growth in turnover (close to 5%) and a relatively stable margin. In the aparthotels segment, the Group's perspectives point to a recovery of normal activity in the second half of 2016 allowing it to achieve an average growth in turnover by 6% and a successive improvement in the margins, with the reach of cruise phase of residences, excluding the Relais Spa residences. Concerning these residences, despite the expected increase in the turnover, the loss (albeit minor) in the SPA and restaurants areas will not even achieve the equilibrium. However, the Group forecasts on improvements in the results of these high range residences. In the preview business plan it was estimated to reach the equilibrium in 2019. The operation of a significant number of residences for seniors and the assumption of an occupation rate around 70% (79% in 2020), alongside with the new strategy in services area, lead to reaching an equilibrium in 2019 and an improvement of margin in 2020.

In a context of expansion of the real estate development activity, that preceding an increase in management activity, the Groups expects growth of earnings before taxes, particularly in 2016 (with the stock sale). On the other hand, the Group's property portfolio is projected to continue displaying positive earnings before taxes, which excluding the change of investment property fair value, will slight decrease in 2016 and 2017 (compared to 2015, as a result of into operation of Marseille République in 2016) and will increase in the following three years.

The Group's expansion strategy points to reaching annually a positive and growing cash flow position, by EUR 115.7 million in the 2016-2020 period. In the context of expansion of the real estate development activity, the Group considered in accumulated terms a need to finance a positive NWCR variation by EUR 8.5 million. However, even in a context of conservative policy of payment of dividends (by EUR 6.5 million in total), given the significant amount of investment activities, by EUR 224.7 million in the entire period, in order, namely to strengthening the property portfolio, which needs time to be profitable, the Group's net financial debt will increase to EUR 291.0 million at the end of 2020 (+74% compared the end of 2015). The annual increase in net debt will be between EUR 47.3 million in 2016 and EUR 11.7 million in 2019. It should be noted that these estimated increases mainly result from the medium and long term debt contracting to finance investments, which the Group has the ability to adjust in the function of overall business performance. Compared to the previous business plan, the main differences in the five-year period were higher cash flow position, corrected by the NWCR variation, by EUR +13.2 million (or 14%) in a context of a more conservative estimate of operating margins, and higher investments by EUR 117.5 million (or 110%), which led to a higher level of net financial debt (by EUR 117.9 million in 2019).

In a context of significant investment, and retaining around 87% of future net results, the base scenario indicates, despite successive strengthening in the Group's capital base, some temporary decline in the equity / assets ratio (deducted of short term net financial debt, cyclical resources and deferred tax liabilities) in 2016 and in 2017, to the minimum of 27.2%. This ratio will be 5.6 pp lower than compared to the end of 2015, which was better than estimated. For the following years the Group forecasts a recovery of its capital structure, thus this ratio will increase to 33.4% at the end of 2020. The balance of medium and long term debt at the end of the year compared with the annual cash flow position suggests an improvement over the period, down from 20.0 times in 2015 to 8.1 times in 2020.

GROUPE RÉSIDE ÉTUDES BASE SCENARIO FOR 2016-2020 PERIOD (MILLIONS EUROS)

	2015	2016 (F)	2017 (F)	2018 (F)	2019 (F)	2020 (F)
A) Earnings Before Taxes	7.8	10.8	14.5	21.5	26.1	35.2
which						
Management Operation Activities	0.2	0.7	2.9	6.9	13.5	19.3
which						
Student Residences	4.4	4.6	4.8	4.9	4.9	5.1
Apparthotels Residences	(1.5)	(1.5)	(0.8)	0.9	3.9	7.0
which "Relais Spa"	(3.6)	(4.5)	(4.0)	(2.6)	(0.9)	0.5
Seniors Residences	(3.2)	(2.9)	(1.5)	0.6	4.1	6.7
Real Estate Development Activities	5.5	8.2	10.1	11.6	9.4	10.2
Equity Investment Activities	6.5	4.7	4.3	5.8	5.8	7.1
Holding Activities	(4.4)	(2.8)	(2.8)	(2.8)	(2.6)	(1.5)
B) Taxes and Participation	(2.4)	(4.3)	(5.8)	(8.6)	(10.4)	(14.1)
C) Net Profit from Activities (A + B)	5.4	6.5	8.7	12.9	15.7	21.1
D) Net Depreciation	7.1	7.8	8.7	9.8	11.3	12.7
D1) Elimination of Variation in Fair Value	(2.8)	(0.6)	(0.1)	(0.4)	0.7	0.8
D2) Others	(1.3)	0.0	0.0	0.0	0.0	0.0
E) Cash Flow Position (C + D + D1 + D2)	8.4	13.6	17.4	22.3	27.7	34.7
F) Variation of NWCR - Operational Activities	(9.1)	(15.5)	6.1	5.0	3.4	(7.5)
G) Cash Flow Position Corrected by the Variation of NWCR (E + F)	(0.7)	(1.9)	23.4	27.3	31.1	27.2
H) Investment Activities	(26.0)	(44.3)	(41.5)	(57.4)	(41.6)	(40.0)
which						
Tangible and Exploration Assets	n.av.	(17.6)	(17.7)	(28.9)	(23.8)	(25.3)
Investment Property	n.av.	(27.2)	(24.3)	(29.0)	(18.3)	(15.0)
I) Dividends	(1.2)	(1.2)	(1.2)	(1.2)	(1.3)	(1.6)
J) Financing Needs before the Debt Service Capital (G + H + I)	(27.8)	(47.3)	(19.3)	(31.3)	(11.7)	(14.3)
L) The Debt Service Capital	(19.1)	(59.3)	(39.2)	(39.2)	(57.3)	(38.2)
which						
Medium and Long Term Financial Debt	(7.7)	(32.4)	(7.7)	(8.9)	(28.0)	(9.1)
which Bond Issue	0.0	(24.7)	0.0	0.0	(18.5)	0.0
which Others Loans	(7.7)	(7.7)	(7.7)	(8.9)	(9.5)	(9.1)
Potential - Short Term Financial Debt	(11.4)	(26.8)	(31.5)	(30.2)	(29.3)	(29.0)
M) New Debt	39.4	125.5	61.9	65.9	48.5	49.4
which						
Potential - Short Term Financial Debt Renewed	11.4	26.8	30.2	29.3	29.0	29.0
Additional Short Term Financial Debt	15.4	4.7	0.0	0.0	0.0	3.2
Medium and Long Term Financial Debt	12.6	94.0	31.7	36.6	19.5	17.1
which Bond Issue	0.0	50.0	0.0	0.0	0.0	0.0
which Others Loans	12.6	44.0	31.7	36.6	19.5	17.1
N) Variation in Gross Cash Position (J+L+M)	(7.5)	18.9	3.4	(4.5)	(20.5)	(3.1)
Summary:						
Gross Cash Position at the End of the Year	27.2	46.1	49.6	45.1	24.5	21.4
Short Term Financial Debt	26.8	31.5	30.2	29.3	29.0	32.3
Net Cash Position at the End of the Year	0.4	14.6	19.4	15.7	(4.5)	(10.9)
Medium and Long Term Financial Debt - Net Cash Position at the End of the Year	167.0	214.4	233.7	265.0	276.7	291.0

Notes:
(F) Forecast for 2016-2020; n.av. = Non available.

Sources:
2016-2020 Groupe Réside Études Business Plan.

SENSITIVITY ANALYSIS

The Group's cash flow position remains sensitive to various factors associated with its activity level and its return, in order to assess the impact on the Group of a smaller cash flow position, ARC Ratings has outlined a stress scenario taking into account the base scenario.

Starting from this base scenario, ARC Ratings has considered - all other things remaining equal - reductions by 0.5 pp in return rates in management / operation of residences: for students from 2016 to 2020 (i.e. 11% less against the base scenario); aparthotels, except Relais Spa, from 2016 to 2020 (i.e. an average of 15% less against the base scenario); and for seniors, only in 2019 and in 2020 (i.e. an average of 12% less than in the base scenario). Additionally, ARC Ratings considered, in the years for which a decrease in return rates was estimated, the simultaneous occurrence of a 10% drop in revenues from these residences. The global impact in earnings before taxes from the management / operation of residences would be a reduction by EUR 11.3 million (i.e. 28% less than in the base scenario). In the real estate development business ARC Ratings considered a decrease by 10% in the main revenues from 2016 to 2020, which would generate an impact in earnings before taxes by EUR -19.5 million (i.e. 39% less than in the base scenario).

Even in a scenario of simultaneous occurrence of falls in return and activity levels in these businesses, partially offset by possible tax savings, the Group would continue to show a cash flow position of approximately 84.1% of the cash flow position considered in the base scenario. Maintaining the distribution of dividends considered in the base scenario, all other things remaining equal, this scenario would result in a deterioration of the Group's cash position by EUR 18.4 million throughout the 2016-2020 period (including annual deteriorations between EUR 3.2 million and EUR 4.4 million). In these circumstances, following the repayment of the outstanding amount of the bond loan placed in 2013, gross cash position would be EUR 10.5 million at the end of 2019 and around EUR 3.0 million at the end of 2020. In this scenario, the Group would still be able to handle this stress scenario. However, in this case, according to the Group, its business management would be different. As a matter of fact, the Group may slowdown the development of new plans and reduce the NWCR associated to the real estate development activity, which would immediately result in an increase in cash position. The Group could also consider to sharply reduce its planned investments in investment property, which would have a positive impact on their cash position.

Finally, and ultimately, the Group could dispose of part of its investment property and operation assets. At the end of 2015, the fair value exceeded the amount of respective debt in the following situations: its eight students social residences, by EUR 21.9 million; its residence for students Marseille République, by EUR 1.2 million; the Paris Opéra aparthotel, by EUR 12.6 million. In relation to property partially recorded as investment property and operational property (recorded net of amortisation), the gap is estimated at EUR 17.9 million.

ISSUANCE CONDITIONALITY

The issue being rated by ARC Ratings is a bond loan, in the form of a private placement, of which Réside Études placed at 23 October 2013, with an outstanding amount presently of EUR 18.5 million (after a prepayment by EUR 25.5 million on 18 February 2016). The main terms of this bond loan are the following: repayment at par following a period of 6 years; interest is payable annually, as from issue date at a fixed interest rate of 5.2% added of 1.25 percentage points / year in case the gearing ratio is equal to or higher than 0.85 times; if this ratio is equal to or higher than 1.00 times, it will trigger the early repayment of the loan; taking into account the consolidated financial statements at 31 December 2015, this ratio is 0.34 times; provision non subordinated and (subject to a negative pledge cause), without any security to be provided by Group Réside Études, ranking pari passu, without any preference among themselves (subject to such exceptions as are from time to time mandatory under French law), ranking pari passu with any other unsubordinated and unsecured obligations, present or future, of Group Reside Études; this clause does not apply to credits financing own property assets and development operations; early repayment of all or part of the bonds in case of change in control; and cross default.

Réside Études

Corporates Rating Report – Performance Review

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ARC Ratings, S.A.

Rua Luciano Cordeiro, 123 – R/C Esq.

1050-139 Lisbon

PORTUGAL

Phone: +351 213 041 110

Fax: +351 213 041 111

E-mail: arcratings@arcratings.com

Site: www.arcratings.com

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