# Réside Études Investissement S.A.

| Issuer | Issuer Rating | Outlook |
|---|---|---|
| Réside Études Investissement S.A. | BBB Medium and Long Term | Stable |
| | Issue Rating | |
| | BBB Medium and Long Term | Stable |

## RATING RATIONALE

ARC Ratings, S.A. (ARC Ratings) downgrades to “BBB”, with stable outlook, from “BBB+”, with negative outlook, the 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 increased leverage of the Group, in the scope of a more pronounced growth of activity and strengthening of the property portfolio to achieve a higher level of fund generation. It should be highlighted the resilience demonstrated by the Group in the context of some segments of residences taking more time to reach their equilibrium than what was expected and the capacity to take decisions to improve the situation. The Group forecasts successive improvements in its capacity to generate funds (as well as in the debt coverage ratios, which experienced a fall in 2016) and in its financial structure in the long term, which supports the stable outlook.

## GROUP PROFILE

Réside Études Investissement S.A. is the holding of a Group created in 1989 and headquartered in Paris, France. This Group initially focused mainly on assisted residences for students, but it has since diversified and currently ranks amongst the 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, this sector has experienced a major boom). The Group has demonstrated the ability to enter into operations of new residences annually, in the three segments, and benefits from a national presence, particularly in large urban areas.

The Group’s main activities are real estate management operation, real estate development and the creation of a property portfolio (including investment property and operation assets). At the end of May 2017, the accommodations units managed by the Group increased to 24,273 (worth approximately of EUR 2.3 billion), of which: 57.8% for students; 31.8% in hotel or tourism residences (aparthotels from 2 to 5 stars, in most of the largest French cities); and 10.1% for non-disabled elderly people (seniors) near the centre of cities. 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 and institutional investors) and less than six per cent of the total (worth EUR 129.2 million at the end of 2016, as investment property) is owned by the Group itself.

RATING DATE
17 August 2017

RATING VALIDITY
17 August 2018

INITIAL RATING
12 September 2013

LAST REVIEW
17 August 2017

NEXT REVIEW DATE
17 August 2018

PERIOD OF ANALYSIS
Historic: 2012 to May 2017
Forecast: 2017 to 2021

INFORMATION ANALYSED
Réside Études 2016 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

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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 2016 Group's turnover stood at EUR 334.5 million, slightly lower than in 2015 due to the greater number of development plans in co-promotion. 79.5% of total turnover came from the real estate management operation, whose importance has been growing.

## 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 twenty-eight 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 (a segment in which it has been present for a longer period and which is more stable) can offset losses arising from the launching of new residences (as happened in recent years) and overcome losses in the 5-star aparthotels. However, the segment of residences for seniors (the latest which the Group has entered and fastest growing), as well as the 5-star aparthotels, are taking more time to reach their equilibrium. This aspect and the impact of some retraction in tourist demand in France, due to terrorism events, led to an EBITDA decrease, by 28.9%, to EUR 14.8 million in 2016. Nonetheless, the net profit, after minority interests, amounted to EUR 4.6 million in 2016 (-11.8% compared with 2015). It should be highlighted the capacity of the Group to perform a contract with one of the world leaders in the tourism sector, to reach the equilibrium of its largest 5-star aparthotel sooner, and to change the management of the segment of residences for seniors after assessing its recent performance.
- Business expansion forecasts - The Group's forecasts point to an increase of accommodation units under management to 35,429 at the end of 2021, through organic growth mainly in France. This increase will be equivalent to 11,867 accommodation units, of which approximately half are for seniors. In addition, the Group intends to strengthen its property portfolio, which functions as a reserve of value. Note that the Group has the capacity to pilot its activity and, if necessary, to adjust their investment strategy, as has occurred in the past.
- High demand for accommodation - There is a shortage of residential housing construction in France, while at the same time, the country has no population growth problems (although having an increased number of seniors aged more than 65) 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 – Most of the Group's debt is contracted in the medium and long term (most at fixed interest rates) to finance the property portfolio. The debt contracted in the short term corresponds mainly to bank overdrafts particularly to finance real estate development programs. Thus, the amount of this short-term debt is a function of the number of development plans and their construction and commercialisation phase. 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. At the end of 2016, as a whole, the debt maturing in the short term stood at EUR 41.0 million (equivalent to 18.2% of total, close to 17.6% at the end of 2015). The Group benefits from a large pool of banks to finance its operations and is working to increase the diversification of sources of funds. In 2016, in the context of investment (EUR 23.2 million) and positive net working capital requirements (NWCR) variation (EUR 14.1 million), the net debt increased, by 20.3%, to EUR 200.2 million. In the current phase of investment and of some management challenges, the net financial debt / EBITDA ratio rose to 13.6 times, while the coverage ratio of net interest costs by EBITDA decreased to 1.8 times (compared respectively with 8.0 times and 3.2 times in 2015). It should be noted that the Group forecasts improvements in these ratios, and, ultimately, could dispose of part of its property portfolio if needed to fulfil its financial commitments.

## THE KEY CONSTRAINTS ON RÉSIDE ÉTUDES' CREDIT RATING ARE:

- Economic growth in France – In the past the French economy recorded low growth rates and unemployment rates to the order of 10%, albeit with a positive trend. In July 2017, the International Monetary Fund forecasts point to some recovery of growth rates to 1.5% in 2017 and to 1.7% in 2018 (closer to 1% in the previous two years). However, this organism considered that the government's ambitious reform program could go a long way in addressing France's longstanding economic challenges - persistent fiscal imbalances, high unemployment, and weak external competitiveness. These evolutions and the taxation (taxes on income and consumption) have an impact on household disposable income (which recovered 1.1% in 2015 and 1.7% in 2016). A potential decline in 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 this VAT increase on rents, and 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 are eligible investments for professional or non-professional furnished rental taxation, a 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 (close to 96% in the oldest leases contrasting with more than 9 years) and 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 that would result in an increase in maintenance, refurbishment and operation costs of assisted residences would be negative. 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. The Group is in the process of becoming the leader in the assisted residence for students and continue to be the second player in the urban hotel or tourism residences. In a moment of significant growth in the seniors' market, the Group intends to keep pace with this growth and hold an important position in this segment of market. It should be highlighted that the Group is able to attract

partners for the real estate development (co-promotion), allowing them 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 increased the main activity. Note that the Group's residences are well localized, have generally a higher quality service than 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, holds 75.4% of the share capital and Mr. Christian Verlaine and Mr. Robert Vergès, each hold 8.7%. The remaining shareholding is distributed amongst the remaining senior staff (as a result of the Group's policy to retain its key leading managers) and treasury shares (the later equivalent to 3.0% of the share capital).

In a growth environment, the Group has strengthened its management team, namely in the segment of residences for seniors to better monitor the expansion of activity. The Group joined the management of the three segments of residences, with a view to further integrate residences for seniors. Thus, Mr. Laurent Noiriel, with vast experience as the Group's General Director of exploration (18 years) became also responsible for this segment, getting the operational functions performed by Mr. Pierre Besnard until March 2017 (who joined the Group in January 2015). The direction of this segment was reinforced with an experienced operation director and will be reinforced by a fourth regional director. The commercial structure of this segment will be also restructured, including one marketing director and two regionals sales managers.

Mr. Christian Verlaine, a non-executive director since February 2016 (and President of some subsidiaries), resumed the functions that were temporarily performed by Mr. Pierre Besnard on the board of directors of Réside Études. In fact, the Group has signed an assistance services and advice Convention with Mr. Christian Verlaine, for an indefinite period, to enable it to continue to benefit from their expertise and experience (of approximately 22 years).

In order to rationalize costs, the Group concluded in 2016, a merger of several subsidiaries operating in the residences for seniors' sector.

## CASH FLOW GENERATION CAPACITY AND RECENT DEVELOPMENTS

The Group's growth strategy led to the entry in operation of 8 new residences in 2016, equivalent to 738 accommodation units (compared to 1,591 accommodation units in 2015). The majority are residences for seniors (five, equivalent to 460 accommodation units), while two are residences for students and one is an aparthotel, with respectively 194 and 82 accommodation units. In global terms, the portfolio under management by the Group increased by 3.2%, to 23,562 at the end of 2016. Globally, the Group held the management of 159 residences with services, of which 65 for students, 44 aparthotels, 28 mixed students and aparthotels and 22 for seniors.

In the first five months of 2017 the portfolio under management by the Group rose, in residences for seniors and aparthotels segments, to 24,273 accommodation units.

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 number of accommodation units under management in these asset categories decreased to 76 at the end of 2016.

In the first five months of 2017, and compared to the same period of the previous year, the average occupancy rates of the residences under management by the Group developed as follows:

- residences for students (marketed mainly under the brand Les Estudines, and also under brand Stud'City) - increased, by 1.6 percentage points (pp), to 91.8%, despite the opening of two new residences;
- aparthotels residences (marketed under the brand names Séjour & Affaires, Residhome and Relais Spa) - despite the opening of five new residences, improved in all range residences, by approximately 5 pp (except for the 3-star residences that already presented better occupancy rates) to nearly 73% in the 2-star residences and to between 69.0% in the 3-star residences and 66.3% in the top range residences (Relais Spa); highlighted the recovery of the occupancy rates of this segment of residences, which was heavily affected in 2016 by the effects of the terrorism events in France;
- residences for seniors (marketed under the brands La Girandière and Victoria Palazzo – the latter is the Group's recently launched luxury brand for this segment) - in the context of a significant opening of residences in the last year, as well as in the previous year, decrease by 4.0 pp, to 63.5% (in comparable terms, the occupancy rate increased to 78.4%). It should be highlighted that the operational structure implemented in 2015 in this business segment is currently being changed in the sense of greater professionalisation of management (a process that occurred a few years ago in the management of other residences).

Regarding the residences for seniors, the Group, after a thorough analysis of the aspects that needed to be improved, is implementing a set of measures at various levels. From the organisational point of view, besides the alteration and reinforcement of the top structure, it intends a greater degree of computerisation of management functions and a greater rationalisation of human resources. From the marketing point of view, whose structure was strengthened, the Group is developing measures to achieve an equilibrium occupancy rate earlier in parallel with the rethinking of the service policy made available, which is a differentiating factor in the market.

Concerning the Relais Spa Roissy (the largest 5-star aparthotel, with 463 accommodation units), to monetize the investment and to attract more international clients, the Group signed at the end of 2016 a franchise contract with Intercontinental Group (with more than 5,000 hotels in operation and 1,500 hotels in pipeline, mostly Franchised hotels, in nearly 100 countries), to be in force in the second semester of 2017. Thus, after some adaptation investment done by the Group, the aparthotel started to operate under one of the world's largest upscale brands, with the designation of Crowne Plaza Paris - Charles de Gaulle, at 20 July 2017 and to be integrated in the large InterContinental Hotels Group reservations central.

Regarding the Relais Spa de Val d'Europe (with 219 accommodations units, near the Disneyland Paris park), the Group's strategy is to improve services to improve the ranking of the aparthotel.

Globally, according to the satisfaction surveys conducted, the degree of clients' satisfaction in the Group's residences under the brand names Séjour & Affaires and Residhome has successively increased to nearly 8 in 2016 (on a scale of 10). In the residences for seniors, in 2016 the satisfaction surveys point to 97% of respondents are satisfied or very satisfied.

Revenues from real estate management operation reached EUR 266.1 million in 2016, a 3.6% year-on-year increase. This expansion mainly resulted from the increase of revenues from the residences for students (by 6.3%, reflecting a full year of exploration of 6 new residences that entered into operation at 2015 university re-entry, as well as, the improvement of the average global occupancy rate) and from a 21.5% increase of the revenues from the residences for seniors (in line with the growth recorded in the previous year). In fact, approximately 60% of the accommodation units for seniors at the end of 2016 had less than 3 full years of exploration. Contrary to previous years, the revenues from the aparthotel segment stabilized, while maintaining its position as the largest source of revenues (48% of total). As mentioned, this segment was affected by the instability created by the terrorism events in France.

In the first five months of 2017 revenues from real estate management operation amounted to EUR 102.7 million, plus 9.1% year-on-year, benefiting from the above-mentioned improvement in the occupancy rate and the increase in the portfolio (by approximately 6%). The three business segments presented expansion, which was more significant in residences for seniors (by 30%) and in the aparthotels (by 8.6%, in all brands of residences). The revenues from the residences for students presented an increase of 3.8%.

The marketing activity of the real estate development increased significantly in 2016 due to the strategy to complete the sale of one residence for students in Paris (with 282 accommodation units) to an institutional investor. Thus, the reservations from full development, co-promotion and marketing programs for third parties rose by 55.5% in value (by 43% in accommodation units' number, to 1,221), while the value of notary deeds signed increased by 36.4% (and by 28.2% in terms of units), being mostly related to co-promotion programs. As usual, 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 depend directly on the progress coefficient of the programs at 31 December, stood at EUR 53.7 million in 2016. Note that due to the increase of the number of programs in co-promotion, which are recorded by the equity method, Group's sales in real estate development dropped by 26% compared to 2015. If the proportional integration method were applied to these programs, instead of the equity method, the Group's sales in real estate development would have slightly decreased in 2016 (by 4.1%). On the other hand, the contribution of the co-promotion programs to the consolidated earnings before taxes increased almost 60%, to EUR 3.0 million in 2016, being a source of generation funds to the Group.

The Group, benefiting from its expertise of the whole real estate construction-development chain, delivered 6 programmes in 2016 (the same as in 2015), of which 2 in co-promotion, which generate profits for the Group of EUR 9.5 million (EUR 8.2 million in 2015). In the first quarter of 2017, the Group delivered one programme in co-promotion that generated EUR 0.5 million of profit for it.

At the end of May 2017, the Group had 36 development plans undergoing marketing and construction, including 14 in co-promotion and the marketing of three development plans for third parties (in which the Group will be the management entity). Approximately 64% of the total are residences for seniors, while 7 are residences for students, 4 are aparthotels and 2 property projects in accession. The Group regularly controls the expected development plans margins. In the first five months of 2017, the value of reservations from full development, co-promotion and marketing programs for third parties rose, year-on-year, by 25% to EUR 70.3 million, while the value of notary deeds signed increased by 23%, to EUR 47.6 million, without considering potential sales in block. Finally, it should be noted 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.

Following the strategy of strengthening its property portfolio, with a selection of quality projects taking advantage of good market opportunities, the value of the property portfolio increased in 2016, by EUR 19.4 million (maintaining the growth trend of the last years), to EUR 196.3 million at the end of the year. Of this amount stands out the value of the investment property (into operation) of EUR 129.2 million, namely the Paris Opéra aparthotel (EUR 35.0 million), the residence for students Marseille République (EUR 18.0 million) and eight students social residences (EUR 63.8 million). This investment property portfolio is booked at the fair value determined by independent evaluation, from which resulted gains of EUR 3.8 million in 2016. In this year the turnover from real estate property slightly increased year-on-year to EUR 8.8 million. The Group also holds an investment property portfolio in progress, whose value increased in 2016, to EUR 31 million, mainly related to the construction of the residence in Paris Batignolles (plus EUR 6.5 million) and of the residence located at rue de la

République in Marseille (plus EUR 3.4 million).

On 20 and 21 July 2017, ARC Ratings met with the board of directors and the senior management of Réside Études to discuss the 2016 Group's performance, the management change in the residences for seniors, and the expansion strategy. ARC also visited two residences for seniors to confirm their good overall condition and to see the evolution of the product.

The Group's turnover reached EUR 334.5 million in 2016, slightly lower than EUR 342.4 million achieved in 2015. In fact, the increase in revenues from real estate management operation was more than offset by the decrease in the sales in real estate development, mainly due to the greater importance of the programs developed in co-promotion recorded by the equity method. Thus, in these circumstances, the contribution from management operation to the total turnover increased to nearly 80% in 2016.

In 2016, even in a context in which the segment of residences for seniors still was consuming resources, namely due to the entry into operation in 2015 and 2016 of new residences (which are still in a phase of search of tenants, with occupancy rates below 40%) and unfavourable conditions for the development of the hotel business (particularly to the 5-star units), the Group managed to achieve an EBITDA of 14.8 million. In fact, the Group presents a significant capacity to generate funds through the more mature segment of residences for students, through the development activity and the investment portfolio. Nonetheless, globally, the funds generated by the Group in 2016 were lower at 28.9% than in the previous year, determined, as stated, by the lower generation of funds from the real estate management operation business.

The EBITDAR is also worth noting, being a relevant indicator of Réside Etudes Group activity, since it measures EBITDA before considering rents paid to investors. In absolute terms EBITDAR continued the growth trend in 2016, rising by 5.3% to EUR 123.8 million.

The 2016 Group's EBIT stood at EUR 10.5 million, lower than EUR 16.6 million achieved in the previous year reflecting the decline in EBITDA, since the higher change in fair value of investment property (by EUR 1 million) almost offset the increase of the amount of depreciation and amortisation and provisions.

In the context of investment and greater dynamism of the development activity and subsequent increase in debt, financial results stood at EUR -8.4 million (compared to EUR -6.6 million in 2015). Given the EBITDA drop, the EBITDA / net interest costs coverage ratio stood at 1.8 times (compared with 3.2 times reached in 2015).

The consolidated earnings before taxes - excluding discontinuing activities and non-current results – stood at EUR 2.1 million in 2016 (compared with 10.1 million in 2015). This value was substantially lower than estimated in the business plan analysed in the previous review (the previous business plan). In fact, despite the performance above the estimated from the management of residences for students and the greater value of gains from the change in the fair value of investment property, the losses in the management of residences for seniors and aparthotels didn't allow the Group to reach its goal (EUR 10.8 million).

In 2016 the net profit from the discontinuing activities, regarding the Compagnie de Bâtiment et de Maçonnerie SAS, became positive by EUR 0.3 million.

In 2016, the Group recorded a tax credit of EUR 2.8 million related to the forecasted tax rate decrease until 2019 applicable only to the potential gains from the fair value of the investment property. Thus, at consolidated level EUR 2.2 million of tax credit was recorded in 2016 (compared to an income tax of EUR 2.2 million in 2015), enabling the Group to reach a net profit, after minority interests, of EUR 4.6 million (-11.8% compared to 2015).

## FINANCIAL POLICY

GROUP RÉSIDE ÉTUDES - FINANCIALS AND RATIOS (THOUSAND EUROS)

| | 2012 Re | 2013 Re | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|
| TURNOVER | 282.352 | 313.092 | 316.366 | 342.389 | 334.543 |
| EBITDA | 19.106 | 23.695 | 23.926 | 20.768 | 14.756 |
| EBITDAR | 93.106 | 106.095 | 114.534 | 117.568 | 123.756 |
| EBIT | 16.534 | 20.661 | 17.628 | 16.601 | 10.473 |
| FINANCIAL RESULT | (4.269) | (5.604) | (7.426) | (6.582) | (8.393) |
| NON-CURRENT RESULTS | (2.947) | (3.777) | (394) | (2.402) | 321 |
| NET PROFIT (AFTER MINORITY INTERESTS) | 4.268 | 7.807 | 4.975 | 5.178 | 4.569 |
| TOTAL ASSETS | 299.044 | 351.741 | 344.601 | 384.548 | 422.439 |
| NET WORKING CAPITAL (NWC) | 34.420 | 62.402 | 58.600 | 46.916 | 50.809 |
| NET WORKING CAP. REQUIREMENTS (NWCR) | 20.428 | 31.086 | 43.584 | 54.970 | 67.771 |
| CASH FLOW POSITION | 10.509 | 11.108 | 13.844 | 8.374 | 5.604 |
| Cash Flow Position Corrected by the Variation of NWCR | (4.136) | (4.450) | 783 | (747) | (8.515) |
| NET CASH POSITION (NCP) | 13.992 | 31.316 | 15.016 | (8.054) | (16.962) |
| FINANCIAL DEBT | 135.364 | 172.347 | 169.998 | 193.687 | 225.362 |
| NET FINANCIAL DEBT | 96.523 | 118.200 | 135.330 | 166.451 | 200.174 |
| Contribution Margin (%) | 25,3% | 26,7% | 27,8% | 26,5% | 27,2% |
| EBITDA Margin (%) | 6,8% | 7,6% | 7,6% | 6,1% | 4,4% |
| EBITDAR Margin (%) | 33,0% | 33,9% | 36,2% | 34,3% | 37,0% |
| Operating Return on Turnover (%) | 5,9% | 6,6% | 5,6% | 4,8% | 3,1% |
| Gross Cost of Borrowed Funds (%) | 2,1% | 2,0% | 2,9% | 2,3% | 2,5% |
| Net Return on Turnover (%) | 1,5% | 2,5% | 1,6% | 1,5% | 1,4% |
| Payout Ratio (%) | 28,1% | 15,4% | 24,1% | 23,2% | 26,3% |
| Coverage of Interest Costs by EBITDA (x) | 3,9 | 4,2 | 3,1 | 3,0 | 1,7 |
| Coverage of Net Interest Costs by EBITDA (x) | 4,5 | 4,2 | 3,2 | 3,2 | 1,8 |
| Net Financial Debt / EBITDA (x) | 5,1 | 5,0 | 5,7 | 8,0 | 13,6 |
| Equity (Incl. Minor. Int.) / Assets (%) | 22,3% | 21,1% | 22,3% | 21,0% | 19,9% |
| NET GEARING (Net Debt to Equity and Minority Interests) (x) | 1,4 | 1,6 | 1,8 | 2,1 | 2,4 |
| Financial Debt Struc. (S.T. Finan. Debt as a % of Total Financial Debt) | 17,5% | 12,6% | 10,9% | 17,6% | 18,2% |
| Liquidity Risk | 0% | 0% | 0% | 100% | 100% |
| Current Assets Ratio | 134,4% | 158,9% | 163,4% | 139,1% | 138,6% |
| Acid Test Ratio | 107,8% | 127,5% | 119,7% | 103,0% | 94,5% |

*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.

The Group's total assets increased nearly 10% in 2016, to EUR 422.4 million. The reinforcement of the investment property, by EUR 20.2 million (higher than the EUR 13.8 million performed in 2015), to EUR 160.2 million, continued to be the main driver for this increase.

In 2016 the NWCR increased to EUR 67.8 million. In the context of expansion of the real estate development activity, the inventories increased by EUR 14.8 million (to EUR 58.1 million) while the trade receivables decreased, by EUR 10.7 million, and the trade payables slightly dropped. Concerning the Group's other activities, the trade receivables recorded a small increase, to EUR 12.8 million, whereas the trade payables rose to EUR 24.2 million. Thus, for the NWCR evolution was crucial the increase in regularising accounts, mainly related to the real estate development activity and the investment property, usually of a temporary nature.

The Group's cash flow position stood at EUR 5.6 million in 2016, less EUR 2.8 million than that achieved in 2015, in the context of greater losses in the management of residences for seniors and less favourable conditions to develop the management of aparthotels. Thus, thanks mainly to the NWCR increase, the cash flow position corrected by the variation of NWCR assumed a more significant negative value in 2016 (EUR -8.5 million) compared to 2015 (EUR -0.7 million). Note that in the past, this indicator, in a framework of investment and expansion of the management activity, has assumed negative values (except in 2014 where it was slightly positive).

The reinforcement of the property portfolio at the same time of the expansion of the development activity (in order to increase the management activity in the future), and the costs associated with the fast growth of the most recent segment of the residences for seniors led to an increase in the financial debt in 2016, by EUR 31.7 million, to EUR 225.4 million. The amount of cash and deposits slightly dropped to EUR 25.2 million at the end of 2016, thus the Group's net financial debt recorded an increase to EUR 200.2 million at that date. It should be emphasised that the ability of the Group to pilot the activity, namely the speed of investment, allowed it to obtain a net financial debt lower in EUR 14.2 million (i.e. -7%) compared to what it had forecasted.

The decline in the amount of EBITDA, in part because of the investment made that needs time to generate funds, coupled with the net debt increase, led to the net financial debt / EBITDA ratio increase to 13.6 times in 2016 (compared with 8.0 times in 2015). Based namely on significant growth prospects of EBITDA, the Group forecasts an improvement of this ratio, especially from 2018 onwards (see Forecasts).

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. At the end of 2016, these types of debt amounted to respectively EUR 66.4 million and EUR 38.6 million. In 2016, the Group obtained funding with 16-year and 20-year maturity and improved the debt profile with the new bond loan, given the good situation in the bond markets in France. In fact, on 18 February 2016, Réside Etudes carried out a new bond loan in the amount of EUR 50 million with institutional investors. This bond issue pays 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 as 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 additional funds (EUR 24.5 million) will allow the Group to continue its development.

In the context of the new bond loan and of the reinforcement of the Group's property portfolio, debt maturing in the medium long term increased, by EUR 24.8 million, to EUR 184.4 million at the end of 2016. EUR 66.6 million of which was payable between 1 and 5 years (including the outstanding amount of EUR 18.5 million of the bond loan being rated) and EUR 117.8 million after 5 years (which represents a significant improvement over the end of 2015). In the period elapsed in 2017 the Group obtained funding with maturities between 27 and 32 years.

The Group's short-term debt amounted to EUR 41.0 million at the end of 2016, equivalent to 18.2% of total. As usual in the Group's activities, this debt was composed mainly of bank overdrafts that amounted to EUR 33.2 million, of which EUR 24.3 million to finance the real estate development programs. In addition, the short-term debt included EUR 7.8 million of medium and long-term debt maturing in the short-term and EUR 2.2 million of accrued interest related to bond loans. The amount in bank overdrafts to finance the real estate development increased to EUR 39.7 million at the end of May 2017, related with 23 development programs that the Group expects to deliver in 2017 (7), 2018 (8) and 2019 (8). On that date, the additional authorisations for development plans in progress amounted to around EUR 66 million.

At the end of 2016 cash and deposits was lower than the short-term debt amount, as occurred at the end of 2015. That situation arose from the real estate development activity, which registered an acceleration in 2016. 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.

Concerning the interest rates, the Group's medium and long-term debt is preferably 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. The three swaps contracted by the Group are valued at their fair value in the Group's accounts. At the end of 2016 the latent loss related to these financial instruments amounted to EUR 2.9 million, with an impact on equity, net of the tax effect, of EUR -1.9 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 (including the minority interests), considering the dividends to be distributed in the following year, which have been maintained at EUR 1.2 million, was reinforced by 4.6% in 2016, to EUR 84.2 million at the end of the year. Nevertheless, the equity / assets ratio stood at close to 20% at the end of 2016 (1.1 pp lower than at the end of 2015) in the context of investment and acceleration of the real estate development activity. Considering the importance of cash and deposits in the balance sheet, the equity / corrected assets ratio (where assets are deducted from these more liquid assets) stood at 21.2% at the end of 2016.

Regarding the insurance policies subscribed by the Group, in the context of a general review of insurance policies, it strengthened the risks and capital covered.

## FORECASTS

In July 2017, the Group updated its business plan for the period 2017-2021 (base scenario), based on 2016 verified numbers. Following the decision to also develop activity at a European level and after a wide geographical prospection, the Group considered the management of four residences in the neighbouring countries Luxembourg (one aparthotel), Belgium (two residences for students in Brussels, city where the Group's international development and operational structure is based) and Switzerland (one residence for students).

The main assumptions for the Group's updated business plan are the following:

- expansion of the number of accommodation units in operation and management by 50% (equivalent to 11,867) to 35,429, through annual increases between 5% and 11% (more sharply in 2020/2021). The Group forecasts expansion in its three business segments, with continued prominence in accommodation units for seniors. This should translate into the opening of about a hundred new residences, more than half for seniors (most of them under the Girandière brand). This will allow the Group to reach a more diversified mix of accommodation units in operation and management by 2021 (21.2% of the total for seniors, closer to 25.9% in aparthotels, and 52.7% for students benefiting from the Group's history in this business segment), in line with what was forecasted in the previous business plan.

- the creation of a durable relationship with the institutional investors (with benefits to the capital structure of the development programs), increasing the target for accommodation units' sale annually to between 1,300 and 1,500.

- reinforcement of the property portfolio by around EUR 214 million, of which EUR 113.4 million in investment property (allowing to duplicate the number of accommodation units in operation and management owned by the Group), taking into account the programs in progress (Marseille République and Paris Batignoles) and a dozen other projects (including a residence aparthotel in Luxembourg), in most cases eligible for social financing. Regarding the fair value of investment property, the Group considers annual valuations lower than those recorded in 2016, in a total of EUR 11.4 million.

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, having considered a moderate annual growth in turnover (6% on average) and an improvement in the margin (+1.7 pp on average compared to 2016). In the aparthotels segment, excluding the Relais Spa residences and the Belvar residence, the Group's perspectives point to a recovery of normal activity (having already recovered in the first 5 months of 2017) allowing it to achieve an average growth in turnover of 7% and an improvement in the margins (to 4% on average, compared to 1% in 2016 as a result of the fall in demand due to the instability created by the terrorism events).

The French statistics point to a significant increase in the number of seniors aged 65 or more in the coming years, which, given the lack of adequate housing for them, represents a growth opportunity for the residences for seniors with services business segment. The Group intends to have a prominent position also in this market segment. Thus, it considers a significant number of residences for seniors entering operation annually in the 2017/2021 period. Considering the changes in progress in the management of these residences and the increase of the base of residences in cruise speed, the Group expects (in the context of a 41% average turnover growth) to reach the equilibrium in this segment in 2021. It should be noted that the ongoing measures point to open the residences only when they have already a higher occupancy rate, greater computerisation of operations and progressive increase of rents (possible with the expected seniors rotation, in the order of 20% per annum).

In the 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 2018 and 2019. Likewise, the Group's property portfolio is projected to continue to show increasing earnings before taxes, on an average of 20% excluding the change of investment property fair value.

The Group's expansion strategy point to reach annually a positive and growing cash flow position, summing EUR 126.6 million in the 2017-2021 period. In the context of expansion of the real estate development activity, and block sales, the Group only considered a positive NWCR variation, of EUR 16.9 million, in 2017 that it will need to finance. Thus, from 2018 to 2021 the expected NWCR variation will be negative, i.e. a source of funds for the Group, in accumulated terms of EUR 32.5 million (especially relevant in 2020).

Even in the context of a conservative dividends policy, the significant amount of investment activities forecasted and the expected higher level of real estate development activity will lead to increases in the Group's net financial debt between 2017 (an increase of around EUR 77 million) and 2019 (to reach the maximum of EUR 326.8 million, assuming that the outstanding amount of the bond loan issued in 2013 will be renewed). In 2020 and in 2021, it is expected that the more significant capacity to generate funds coupled with a slowdown in investment policy will allow a net debt reduction, to around EUR 279 million at the end of 2021. It should be noted that the estimated net debt increase mainly results from the medium and long-term debt contracted to finance investments, an effort that the Group can adjust in the function of overall business performance, in addition to moving to a higher level of use of bank overdrafts for financing the development programs (with a significant impact in 2017).

It should be noted that, according to the Group's forecasts, the forecasted increase of the net financial debt is expected to be accompanied by improvements in the EBITDA debt coverage ratios. The net financial debt / EBITDA ratio, after a small improvement expected for 2017 will improve to less than the 8.0 times level in 2018/2019 and to below 6 times in 2020 and nearly 4 times in 2021. Likewise, regarding the net interest costs coverage the perspectives point to successive improvements to higher levels that what was achieved in the past years (between 4 times and 7 times).

**GROUPE RÉSIDE ÉTUDES BASE SCENARIO FOR 2017-2021 PERIOD (MILLIONS EUROS)**

| | 2016 | 2017 (F) | 2018 (F) | 2019 (F) | 2020 (F) | 2021 (F) |
|---|---|---|---|---|---|---|
| **A) Earnings Before Taxes** | **2,1** | **6,0** | **24,0** | **23,5** | **31,5** | **44,3** |
| **which** | | | | | | |
| **Management Operation Activities** | (7,2) | (6,7) | 0,9 | 0,3 | 9,8 | 23,0 |
| **which** | | | | | | |
| **Student Residences** | 5,3 | 6,0 | 7,1 | 7,0 | 9,5 | 9,9 |
| **Apparthotels Residences** | (4,7) | (1,8) | 2,9 | 4,3 | 5,9 | 7,2 |
| **which "Relais Spa"** | (5,8) | (4,9) | (1,9) | (0,4) | 0,4 | 0,8 |
| **Seniors Residences** | (7,9) | (11,0) | (9,2) | (11,0) | (5,7) | 5,8 |
| **Real Estate Development Activities** | 5,5 | 8,7 | 16,8 | 16,6 | 11,9 | 9,7 |
| **Equity Investment Activities** | 7,8 | 5,6 | 7,9 | 9,2 | 11,4 | 13,3 |
| **Holding Activities** | (4,0) | (1,6) | (1,6) | (2,6) | (1,6) | (1,6) |
| **B) Taxes and Participation** | **2,2** | **(2,4)** | **(9,6)** | **(9,4)** | **(12,6)** | **(17,7)** |
| **C) Net Profit from Activities (A + B)** | **4,3** | **3,6** | **14,4** | **14,1** | **18,9** | **26,6** |
| **D) Net Depreciation** | **8,3** | **9,1** | **10,2** | **11,8** | **13,5** | **14,9** |
| **D1) Elimination of Variation in Fair Value** | **(3,8)** | **(1,2)** | **(1,7)** | **(2,1)** | **(2,9)** | **(3,6)** |
| **D2) Others (including CBM)** | (3,1) | 0,0 | 0,0 | 0,0 | 0,0 | 1,0 |
| **E) Cash Flow Position (C + D + D1 + D2)** | **5,6** | **11,5** | **23,0** | **23,8** | **29,5** | **38,9** |
| **F) Variation of NWCR - Operational Activities** | **(14,1)** | **(16,9)** | **1,9** | **1,8** | **19,3** | **9,4** |
| **G) Cash Flow Position Corrected by the Variation of NWCR (E + F)** | **(8,5)** | **(5,4)** | **24,9** | **25,6** | **48,8** | **48,3** |
| **H) Investment Activities** | **(23,2)** | **(70,2)** | **(55,0)** | **(42,7)** | **(28,9)** | **(17,4)** |
| **which** | | | | | | |
| **Tangible and Exploration Assets** | n.av. | (18,2) | (24,3) | (24,1) | (19,6) | (17,4) |
| **Investment Property** | n.av. | (51,4) | (31,2) | (19,1) | (10,8) | (0,9) |
| **I) Dividends** | **(1,2)** | **(1,2)** | **(1,2)** | **(1,4)** | **(1,4)** | **(1,9)** |
| **J) Financing Needs before the Debt Service Capital ( G + H + I)** | **(32,9)** | **(76,8)** | **(31,3)** | **(18,6)** | **18,5** | **29,0** |
| **L) The Debt Service Capital** | **(53,1)** | **(41,8)** | **(65,2)** | **(91,6)** | **(79,0)** | **(82,7)** |
| **which** | | | | | | |
| **Medium and Long Term Financial Debt** | (26,3) | (8,6) | (11,5) | (32,7) | (16,1) | (25,1) |
| **which Bond Issue** | (24,7) | 0,0 | 0,0 | (18,5) | 0,0 | 0,0 |
| **which Others Loans** | (1,6) | (8,6) | (11,5) | (14,2) | (16,1) | (25,1) |
| **Potential - Short Term Financial Debt** | (26,8) | (33,2) | (53,7) | (58,9) | (62,9) | (57,6) |
| **M) New Debt** | **84,0** | **123,6** | **96,9** | **116,5** | **76,1** | **62,5** |
| **which** | | | | | | |
| **Potential - Short Term Financial Debt Renewed** | 26,8 | 33,2 | 53,7 | 58,9 | 57,6 | 56,0 |
| **Additional Short Term Financial Debt** | 6,4 | 20,5 | 5,2 | 4,0 | 0,0 | 0,0 |
| **Medium and Long Term Financial Debt** | 50,8 | 69,9 | 38,1 | 53,6 | 18,5 | 6,5 |
| **which Bond Issue** | 50,0 | 0,0 | 0,0 | 18,5 | 0,0 | 0,0 |
| **which Others Loans** | 0,8 | 69,9 | 38,1 | 35,1 | 18,5 | 6,5 |
| **N) Variation in Gross Cash Position (J+L+M)** | **(2,0)** | **5,0** | **0,4** | **6,4** | **15,6** | **8,7** |
| **Summary:** | | | | | | |
| **Gross Cash Position at the End of the Year** | 25,2 | 30,2 | 30,6 | 37,0 | 52,6 | 61,4 |
| **Short Term Financial Debt** | 33,2 | 53,7 | 58,9 | 62,9 | 57,6 | 56,0 |
| **Net Cash Position at the End of the Year** | (8,0) | (23,5) | (28,3) | (25,9) | (5,0) | 5,4 |
| **Medium and Long Term Financial Debt - Net Cash Position at the End of the Year** | 200,2 | 276,9 | 308,3 | 326,8 | 308,3 | 279,3 |
| **Coverage of Net Interest Costs by EBITDA (x)** | **1,9** | **2,9** | **5,0** | **4,4** | **5,5** | **6,7** |
| **Net Financial Debt / EBITDA (x)** | **13,5** | **13,1** | **7,7** | **7,6** | **5,9** | **4,2** |

***Notes:***
**(F) Forecast for 2017-2021; n.av. = Non available.**

***Sources:***
**Groupe Réside Études Business Plan.**

Compared to the previous business plan, in the five-year period, the cash flow position (corrected by the NWCR variation) will be higher by one third (equivalent to EUR +35 million), despite considering that in accumulated terms the management of residences for seniors (which is in a fast growth phase) will need to be supported by the other more mature segments of residences under management and by the other profitable Group's actives. Regarding the operation and management of residences for students and aparthotels, as stated, the Group expects margins improvements (higher than those considered in the previous business plan). The amount of total investments will be slightly lower (by -5%), while maintaining the amount of investments to strengthen the investment property. Thus, considering the renewal of the EUR 18.5 million of the bond loan being rated, instead of the payment considered before, the net financial debt will assume higher values (between EUR 40 million and EUR 50 million until the end of 2019, and around EUR 17 million at the end of 2020), in order to enhance the generation of funds from 2020 onwards.

In the 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, a decline in the equity / assets ratio (deducted of short term net financial debt, cyclical resources and deferred tax liabilities) from 2017 to 2020, to the minimum of 25.7% in 2017 and recovery in 2021 (to 35.5%).

## SENSITIVITY ANALYSIS

The Group's cash flow position remains sensitive to various factors associated with its activity level and its return, so 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 1.0 pp in return rates in management / operation of residences: for students from 2017 to 2021 (i.e. 15.5% less against the base scenario); aparthotels, except Relais Spa, from 2017 to 2021 (i.e. an average of 26% less against the base scenario); and for seniors, only in 2021 (i.e. 25% less than in the base scenario). Additionally, ARC Ratings considered, in the years for which a decrease in return rates were 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 18.9 million in the 2017/2021 period (i.e. 71% less than in the base scenario). In the real estate development business ARC Ratings considered a decrease of 10% in the main revenues from 2017 to 2021, which would generate an impact in earnings before taxes of EUR -22.8 million (i.e. 36% less than in the base scenario). In addition, in the equity investment activity ARC also considered a negative impact in earnings before taxes of EUR 6.5 million in accumulate terms (i.e. 14% 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 80% 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 28.9 million throughout the 2017-2021 period (including annual deteriorations between EUR 4.7 million and EUR 7.0 million). In these less favourable circumstances, at the end of 2018 the gross cash position would be EUR 20.3 million, i.e. even without considering any generation of funds in 2019 the Group would have capacity to repay the outstanding amount of the bond loan placed in 2013 (if necessary). In this case, the gross cash position would be around EUR 14 million at the end of 2021 (compared to EUR 61.4 million in the base case). Thus, the Group would still be able to handle this stress scenario. However, in less favourable conditions to develop the activities, 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 also have a positive impact on their cash position.

Finally, and ultimately, the Group could dispose of part of its investment property and operational assets. Globally, as stated, the book value of these assets amounted to EUR 196.3 million at the end of 2016, which exceeded the respective debt in an amount of more than EUR 80 million, particularly in the case of the eight student's social residences (EUR 25.2 million) and of the Paris Opéra aparthotel (EUR 16.3 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 on 23 October 2013, with an outstanding amount presently of EUR 18.5 million (after a prepayment of 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 2016, this ratio is 0.64 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.

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