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) affirms the "BBB", with stable outlook 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 strengthening of the Group's ability to generate funds, proving its resilience in the context of losses arising from the launch of new residences, from the 5-star aparthotels and from the segment of residences for seniors. As expected, its greater EBITDA level allowed the improvement of debt coverage ratios, even in the context of significant investment. Benefiting from the positive fundamentals of the French market, the Group continues to implement its strategy of growth and investment, which, given the long-term nature of its activity, will lead to a temporary increase in its leverage. The Group forecasts successive improvements in its capacity to generate funds. It also expects improvement in its debt coverage ratios. These aspects support the rating stable outlook, which ARC Ratings will continue to monitor.

GROUP PROFILE

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

This Group initially focused mainly on assisted residences for students, but it has since diversified and 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 launch new residences annually (10 in 2018). It 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 2018, the accommodation units managed by the Group

RATING DATE
12 July 2019

NEXT REVIEW DATE
13 July 2020

INITIAL RATING
12 September 2013

LAST REVIEW
16 August 2018

PERIOD OF ANALYSIS
Historic: 2014 to March 2019
Forecast: 2019 to 2023

INFORMATION ANALYSED
Réside Études 2018 Annual Report
Financial Debt Details
Réside Études Interim Information
Peers Annual Reports

METHODOLOGY APPLIED
ARC Ratings' Corporates Entities Rating Methodology available at www.arcratings.com

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increased to 27,243 (worth nearly EUR 2.6 billion), of which: 57.9% for students; 28.9% in hotel or tourism residences (aparthotels from 2 to 5 stars, in most of the largest French cities); and 13.1% for non-disabled elderly people (seniors) near the centre of cities. This last segment shows the highest growth rate.

Its economic model allowed the transformation of a capital-intensive activity into a model less capital intensive. The large majority of accommodation units managed by the Group are held by investors, more than 20,300 private and institutional investors. The number of accommodation units held by the Group increased by more than 20% in 2018, representing around 6.5% of the total. The market value of these assets increased to EUR 206.4 million at the end of 2018 and is recorded as investment property.

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; the residences' marketing phase should be over a period of 18 months with delivery within 24 months from the start of construction; sale of accommodation units to private and institutional investors; a minimum of 9 years signed leases with private and institutional investors; the search of tenants in order to obtain the best occupancy rate of the accommodations units, the maintenance and management of residences. The Group is responsible for invoicing and collecting rents.

In a favourable context for their activity, the Group's turnover rose by 22.1% in 2018 to EUR 463.9 million. More than 70% of which came from the real estate management operation, the most regular source of revenue.

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 three decades. The shareholders' agreement allows share transfers among shareholders, hence ensuring the stability of the shareholder structure.

- The Strategy of the Company - The strategy of the Group continues to be mainly based on organic growth, presenting significant growth prospects, particularly in France. The positive results from the investment property activity, the development activity, the student residence segment (a segment in which it has been present for a longer period and which is more stable) and the aparthotels segment in the mid-range (that benefited from the tourism recovery in the country), can offset losses arising from the launching of new residences (as happened in recent years) and overcome losses in the 5-star aparthotels and in the segment of residences for seniors. The latest segment is the fastest growing, but is taking more time to reach their equilibrium. Noteworthy was the significant EBITDA increase, to more than EUR 30 million in 2018 compared with EUR 19.4 million in 2017, as well as, the cash flow position increase, to EUR 16.9 million (from EUR 10.2 million in 2017). These are the highest results achieved by the Group up to now.

- Business expansion forecasts - The Group's forecasts point to an increase of close to 13,300 accommodation units under operation and management to reach circa of 40,000 in 2023, mainly in France. More than 45% of the increase is related to residences for seniors. In addition, the Group intends to strengthen its property portfolio, as in previous years, which functions as a reserve of value. It should also be noted that the Group has the capacity to pilot its activity and, if necessary, to adjust its investment strategy, as has occurred in the past.

- High demand for accommodation - There is a shortage of residential housing construction in France (with a population of 67.8 million), while at the same time, its population continues to grow (with an increased number of seniors aged over 65), it continues to receive international students and to be a hub of international business. Investment in assisted residences benefits from the tax status of the furnished rental which continues to stimulate 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 conservative 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. 21% of total debt, equivalent to EUR 68.2 million, had a short term maturity at the end of 2018, including the outstanding amount of the first bond loan which will be refinanced by a bond loan being prepared. In the context of significant investment and development activity expansion, the Group's net financial debt increased by 6.8%, to EUR 272.7 million. The EBITDA improvement allowed to decrease the net financial debt / EBITDA to 8.9 times, from 13.2 times in 2017. The coverage ratio of net interest costs by EBITDA also improve to 3.7 times, from 2.6 times. The Group benefits from a large pool of banks to finance its operations and reached a greater diversification of source of funds in 2018. The ongoing financial operations will increase this diversification and boost the cash and deposits. In the future, the Group forecasts a further improvement of the debt service coverage ratios.

THE KEY CONSTRAINTS ON RÉSIDE ÉTUDES' CREDIT RATING ARE:

- Economic growth in France – On 3 June the International Monetary Fund (IMF) staff concluding Statement of the 2019 Article IV Mission. According to this statement, France's growth has slowed but remains resilient. 1.3% of growth is expected this year and a stabilization at around 1.5% in the medium term. The unemployment rate declined to 8.7% at end-March 2019, in part reflecting important labour-market and tax reforms implemented in recent years. But external risks have risen, and France's structural challenges persist: high public and private debt (public debt still close to 100% of GDP, while the fiscal deficit decrease to 2.5% of GDP last year), still high structural unemployment and sluggish productivity growth. Building on the government's agenda, reforms must continue to address these long-term challenges and bolster resilience to shocks. A potential decline in household disposable income (contrary to what occurred in 2015/2016 and in the second half of 2018) would affect occupancy rates in residences and the gap between rents received from tenants and rents paid to investors. It is worth noting that the sovereign ratings assigned to France remains strong: "AA/Stable" by Standard and Poor's, "AA/Stable" by Fitch Ratings and "Aa2/Positive" by Moody's Investors Service.

- Changes in taxation - Namely a rise in VAT Rates, as observed in 2014, applicable to furnished rented units. To the extent that the Group cannot full pass the potential VAT increase on to rents, this change can affect its profitability.

- Changes in investment decision-making factors - These changes can have an impact on demand for the acquisition of new accommodation units and on lease renewals. Taxation is one of the most important factors affecting investment. However, 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 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. The investors can hardly refuse except if support the cost of an indemnity which can cover 2 to 3 years of rents (which represents the market value of goodwill). It must be noted that the Group continues to give high importance to maintaining over time the quality of the residences and offer a larger number of services when compared with its competition. These factors help maintain higher occupancy rates.

- 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 affect return levels. The Group is the leader in the assisted residence for students and continues 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 take a significant position in this segment. It contributes to the improvement of the concept of residences for seniors by offering a quality product. 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 and grow faster in the activity of real estate management of residences, 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 helped to increase the main activity. In addition to the large private base of private investors, the Group wants to develop balanced marketing channels, by creating a durable relationship with the institutional investors. Note that the Group's residences are well localized and generally have a higher quality service than competition. In order to optimise profitability in the future, the Group is prudent in the choice of land for new locations and in the marketing phase.

SHAREHOLDERS AND GOVERNANCE

Réside Études Investissement presents a stable shareholder structure, based on its Management since 1998. Mr. Philippe Nicolet, as President and founder, holds 75.74% of the share capital, Mr. Robert Vergès holds 8% and Mr. Christian Verlaine holds 7.35%. The remaining shareholding is distributed amongst an increasing number of 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 4.1% of the share capital).

The expansion of activity led the Group to strengthen its management team in order to better monitor its evolution and to take corrective measures on a timely basis when necessary. Therefore, after unifying the management of the three segments of residences in the middle of 2017 (with a view to further integrate residences for seniors, which already showed results), the Group strengthened its financial and management team. In 2018 it appointed a new independent Director, Mr. Olivier Schatz, with vast experience in the financial area, who is also the president of the Audit Committee.

In addition, by signing assistance services and advice Conventions, for an indefinite period, the Group continues to benefit from the expertise and experience within the Group of Mr. Christian Verlaine (with 23 years of experience), a non-executive director since February 2016, and of Mr. Jean-Philippe SUC (the previous financial director over 10 years), which became a Group's advisor since mid-2018.

CASH FLOW GENERATION CAPACITY AND RECENT DEVELOPMENTS

The Group's growth strategy led to the entry in operation of 10 new residences in 2018, equivalent to more than 1,000 accommodation units. In order to balance the mix of residences under management by the Group, eight of the new residences were for seniors and two are for students.

The portfolio under management by the Group showed an increase trend to 27,243 at the end of 2018 (plus 6% compared with the end of 2017). In total, the Group holds the management of circa 180 residences with services.

The average occupancy rates of the residences under management by the Group improved, year-on-year, as follows:

- Residences for students (marketed mainly under the brand Les Estudines, and also under the brand Stud'City) - in the context of opening 2 new residences, the average occupancy rates improved to above 88% in 2018 (plus 2.9 percentage points (pp) compared with 2017, and to above 94% in the first quarter of 2019. It should be noted that in comparable terms there was a slight improvement of occupancy levels.
- Aparthotels residences (marketed under the brand names Séjour & Affaires, Residhome, Relais Spa and Crowne Plaza) – in the context of stability of the number of residences the occupancy rates improved in all the range of residences in 2018 to between the 70% level and the 77% level. In the first quarter of 2019 there was a mixed evolution. Except on the 4-star, all the occupancy rates were above the 70% level.
- Residences for seniors (marketed under the brands Les Girandières and Victoria Palazzo – the latter is the Group's luxury brand for this segment launched in 2017 with two residences in Nice and in Marseille) - in the context of a significant opening of residences since 2015 (of which 8 in 2018), the occupancy rate improved to the 65% level in 2018 and reached the 70% level in the first quarter 2019 (for a total of 37 residences). This improvement reflected the commitment of the Group in increasing quality of the product (a differentiating factor in the market) and greater professionalism in its management, progress at the marketing area, in line with the standards followed in the more mature segments of residences for students and aparthotels residences.

According to the surveys conducted, the degree of clients' satisfaction in the Group's aparthotels residences improved in 2018. It increased to 8.1/10 under the brand Residhome, to 8.4/10 under the brand Relais Spa and Crowne Plaza. The exception was the aparthotels residences under the brand Séjours & Affaires in which this classification stood at 7.5/10. In the residences for seniors, the surveys point to a high satisfaction above 94%, regarding to host services and security services in place. In addition, 84.5% of the senior are satisfied with the services offered to the person. The Group intends to improve the set of services available, especially that of the restoration.

It should be also emphasized the Revenue Per Available Room (RevPAR) improvement achieved by the Group in the globality of residences under management, particularly in the residences for the senior segment. The exception occurred in the aparthotels residences under the brand Residhome in the first quarter of 2019, due to the decrease of its average occupancy rate.

In this favourable context, revenues from real estate management operation shown a 11.5% increase in 2018 to EUR 327.2 million. This positive trend was observed in the three business segments. This trend has been more significant in the residences for seniors (of 37.6%), as a result of opening of residences and RevPAR improvement.

In the first quarter of 2019 revenues from real estate management and operation showed a 7% year-on-year growth, reaching close to EUR 68 million. The three business segments grew, particularly the residences for seniors (above 37%).

It should be noted that the largest aparthotel residence, located at Roissy, France, with 455 accommodation units, is being ran under a franchise contract with Intercontinental Hotels Group since July 2017. This aparthotel residence is marketed under the brand Crowne Plaza. Despite the increase of turnover in 2018, benefiting from the greater brand awareness, this residence continues to show significant losses. Therefore, in order to stop losses and reach the equilibrium, the Group decided a financial restructuring plan of its activity. It decided to activate the lever of the renewal of contracts with investors in 2019 and in 2020 and that of a recapitalization by the Group.

The Group's marketing activity of the real estate development benefited from the high level of sales to private investors and institutional investors (block sales). The reservations from full development, co-promotion and marketing programs for third parties rose by 26% in value, to EUR 293.4 million (equivalent to 1,531 accommodation units), of which 27.4% related to three letters of intent regarding the block sales of three residences for seniors (equivalent to 295 accommodation units). In 2017 there were four letters of intent with regards to the block sales (related to four residences with 312 accommodation units).

The value of notary deeds signed significantly increased in 2018 by 70%, to EUR 317.6 million (by 60% in terms of units). Significant part of the notary deeds was related to residences for seniors, benefiting from the significant expansion of development in co-promotion.

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. However, the programs in co-promotion, which have increased, particularly relative to residences for seniors, are recorded by the equity method, therefore without impact on Group's sales in real estate on its consolidated accounts. Group's sales in real estate development showed a significant 76.3% year-on-year increase in 2018, to EUR 124.7 million. 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 reached EUR 188.6 million (increased by 73.6%). The contribution of the co-promotion programs to the consolidated earnings before taxes grown up by 90%, to EUR 5.6 million in 2018, being an increasing source of funds generation for the Group.

At the end of March 2019, the Group had 35 development plans undergoing marketing and construction, 14 of which in co-promotion, one sold in block and two development plans for third parties (in which the Group will be the management entity). More than three-quarters of the total are residences for seniors, while 5 are residences for students, 5 are aparthotels and one is a property project in accession. The Group regularly controls the expected development plans margins. In the first quarter of 2019 the value of total reservations reached EUR 98.1 million, growing almost 80% year-on-year. The value of notary deeds signed reached EUR 32.8 million, growing 29% compared with the same period of the previous year.

GROUP RÉSIDE ÉTUDES - FINANCIALS AND RATIOS (THOUSAND EUROS)

	2014	2015	2016	2017	2018	2019 (F)	2020 (F)	2021 (F)	2022 (F)	2023 (F)
TURNOVER	316,366	342,389	334,543	380,017	463,871	492,452	532,172	589,629	609,331	659,579
EBITDA	23,926	20,768	14,756	19,398	30,493	29,460	45,225	54,421	67,963	78,973
EBITDAR	114,534	117,568	123,756	138,838	155,594	n.av.	n.av.	n.av.	n.av.	n.av.
EBIT	17,628	16,601	10,473	15,910	21,857	22,723	33,726	40,315	49,867	55,686
FINANCIAL RESULT	(7,426)	(6,582)	(8,393)	(7,559)	(8,140)	(10,511)	(10,768)	(10,925)	(10,673)	(10,322)
NON-CURRENT RESULTS	(394)	(2,402)	321	87	68	0	0	0	0	0
NET PROFIT (AFTER MINORITY INTERESTS)	4,975	5,178	4,569	6,090	11,793	8,182	15,382	19,692	26,260	30,394
TOTAL ASSETS	344,601	384,548	422,439	510,290	578,217	n.av.	n.av.	n.av.	n.av.	n.av.
NET WORKING CAPITAL (NWC)	58,600	46,916	50,809	28,701	34,441	n.av.	n.av.	n.av.	n.av.	n.av.
NET WORKING CAP. REQUIREMENTS (NWCR)	43,584	54,970	67,771	66,263	57,250	42,025	35,216	38,856	39,036	39,229
CASH FLOW POSITION	13,844	8,374	5,604	10,153	16,944	10,978	24,892	32,711	43,071	52,314
Cash Flow Position Corrected by the Variation of NWCR	783	(747)	(8,515)	8,742	31,146	26,203	31,701	29,071	42,891	52,121
NET CASH POSITION (NCP)	15,016	(8,054)	(16,962)	(37,562)	(22,809)	n.av.	n.av.	n.av.	n.av.	n.av.
FINANCIAL DEBT	169,998	193,687	225,362	272,664	319,953	417,682	432,203	418,578	436,294	447,228
NET FINANCIAL DEBT	135,330	166,451	200,174	255,347	272,730	311,770	339,814	369,810	387,265	403,565
Contribution Margin (%)	27.8%	26.5%	27.2%	27.9%	26.8%	26.8%	28.8%	29.4%	30.6%	31.2%
EBITDA Margin (%)	7.6%	6.1%	4.4%	5.1%	6.6%	6.0%	8.5%	9.2%	11.2%	12.0%
EBITDAR Margin (%)	36.2%	34.3%	37.0%	36.5%	33.5%	n.av.	n.av.	n.av.	n.av.	n.av.
Operating Return on Turnover (%)	5.6%	4.8%	3.1%	4.2%	4.7%	4.6%	6.3%	6.8%	8.2%	8.4%
Gross Cost of Borrowed Funds (%)	2.9%	2.3%	2.5%	1.8%	1.8%	n.av.	n.av.	n.av.	n.av.	n.av.
Net Return on Turnover (%)	1.6%	1.5%	1.4%	1.6%	2.5%	1.7%	2.9%	3.3%	4.3%	4.6%
Payout Ratio (%)	24.1%	23.2%	26.3%	19.7%	15.3%	22.0%	10.0%	10.0%	10.0%	n.av.
Coverage of Interest Costs by EBITDA (x)	3.1	3.0	1.7	2.5	3.6	2.7	4.0	4.8	6.2	7.4
Coverage of Net Interest Costs by EBITDA (x)	3.2	3.2	1.8	2.6	3.7	2.8	4.2	5.0	6.4	7.7
Net Financial Debt / EBITDA (x)	5.7	8.0	13.6	13.2	8.9	10.6	7.5	6.8	5.7	5.1
Equity (Incl. Minor. Int.) / Assets (%)	22.3%	21.0%	19.9%	17.3%	17.1%	n.av.	n.av.	n.av.	n.av.	n.av.
NET GEARING (Net Debt to Equity and Minority Interests) (x)	1.8	2.1	2.4	2.9	2.8	3.0	2.9	2.7	2.4	2.1
Liquidity Risk	0%	100%	100%	100%	100%	n.av.	n.av.	n.av.	n.av.	n.av.
Current Assets Ratio	163.4%	139.1%	138.6%	116.3%	117.4%	n.av.	n.av.	n.av.	n.av.	n.av.
Acid Test Ratio	119.7%	103.0%	94.5%	78.1%	93.1%	n.av.	n.av.	n.av.	n.av.	n.av.

Notes:
Figures rounded.
(F) Forecast for 2019-2023; n.av. = Non available.
Accounts reclassified by ARC Ratings for analisys purposes.

Sources:
Groupe Réside Études Annual Reports.
Groupe Réside Études Business Plan.

In addition, four real estate programs are under construction. It's two aparthotels (one in Belval, Luxembourg, and one in Marseille, France), one residence for researchers and doctoral students in the Quartier de Batignolles, in Paris, and one residence for seniors (in Montigny-le-Bretonneux), all of them bought in VEFA for the Group's property investment. Once completed, these residences will be managed by the Group's management branch.

In the context of strengthening the Group's property portfolio, including a selection of quality projects taking advantage of good market opportunities, the property portfolio value increased 19% in 2018 (equivalent to EUR 46.9 million), to EUR 295.3 million.

This investment property portfolio is booked at the fair value determined by independent evaluations. It generated gains of EUR 15.3 million in 2018 (EUR 6.2 million in 2017). The turnover from real estate property stabilised close to EUR 10 million. The Group's investment property portfolio in progress decreased to EUR 27.4 million at the end of 2018.

On 3rd and 4th of June 2019, ARC Ratings met with the board of directors and the senior management of Réside Études to discuss the Group's performance and its strategy.

The Group's turnover rose 22.1%, reaching a new maximum of EUR 463.9 million in 2018. More than 70% of which came from the real estate management operation, the more regular source of revenue. EBITDA margin improved to 6.6%, more 1.5 pp compared with 2017 figure. Therefore, in a context of expansion activity, the Group's EBITDA significantly increase (by 57%) exceeding EUR 30 million. Group's three main activities are sources of funds.

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. Group's EBITDAR rose by 12% to EUR 155.6 million in 2018.

In 2018 depreciation and amortisation rose by 32%, as a result of investment done by the Group in previous years. In addition, the Group created a EUR 10.1 million provision for loss of value of operation assets held, particularly in the Relais Spa Roissy (which performance continue below the forecasts). However, these impacts were offset by significant gains recorded from the change of the market value of the Group's investment property portfolio. In the context of more significant results from the co-promotion development, its EBIT increased to EUR 21.9 million in 2018, from EUR 15.9 million in 2017.

In the context of investment, and greater dynamism of the development activity, with impact on debt, Group's financial results was EUR -8.1 million. Benefiting from a significant EBITDA increase, the coverage of net interest costs by EBITDA improved to 3.7 times in 2018, compared with 2.6 times in 2017 (the best ever achieved by the Group).

The consolidated earnings before taxes significantly increased, by 64%, to EUR 13.7 million in 2018. Benefiting from a lower income tax rate, the Group's net profit, after minority interests, almost doubling to EUR 11.8 million in 2018.

FINANCIAL POLICY

The Group's total assets reached EUR 578 million at the end of 2018. Non-current assets increased to EUR 232.7 million in the context of inventories decrease, by -28%, to EUR 48.2 million, and a small increase of trade receivables, to EUR 44.8 million, mainly relate to the Group's real estate development activity. We should mention the reinforce of cash and cash equivalents, by close to EUR 30 million, to EUR 47.2 million at the end of 2018.

The Group's cash flow position improved to EUR 16.9 million in 2018 (from EUR 10.2 million in 2017), benefiting from favourable environment for its activity. The cash flow position corrected by the variation of the net working capital requirements (NWCR), which was positive, stood at EUR 31.1 million at the end of 2018.

The strengthening strategy of reinforcement of the property portfolio coupled with the increase of the development activity, 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 a EUR 17.4 million increase in the net financial debt in 2018, to EUR 272.7 million. The Group continued to show ability to pilot the activity, having carried out medium term investment of EUR 51.3 million (less circa 13% compared to the forecast). Therefore, at the end of 2018 its net financial debt was 10.9% lower than the forecasted (equivalent to EUR -33.5 million). In the context of medium-term investment, which needs time to be profitable, the net financial debt / EBITDA ratio improved to 8.9x in 2018 (low leverage than forecasts), compared with from 13.2 times in 2017. Based namely on significant growth prospects of EBITDA, the Group forecasts gradual improvement of this ratio (see Forecasts).

The Group's medium long-term debt has a long-term maturity. At the end of 2018 the social housing loans for student residences, with 30 years maturity, amounted to EUR 36.1 million, whilst the real estate leases, generally with 15 years maturity, amounted to EUR 63.9 million. The bond loans amounted to EUR 70.7 million, of which EUR 50 million issued on 18 February 2016, with a 7 years maturity (that pays an annual interest rate of 4.5%), and EUR 18.5 million regarding the outstanding amount of the bond loan issued on 23 October 2013 (after a partial repayment made in advance with the proceeds of the EUR 50 million bond loan), with a 6 years maturity, i.e. will mature on 23 October 2019, and pays an annual interest rate of 5.2%. In the context of investment, the medium and long-term debt increased by EUR 20 million, to EUR 249.2 million at the end of 2018. EUR 163 million of which was payable after 5 years, EUR 58.7 million was payable between 1 and 5 years and EUR 27.5 million was due in 2019. EUR 18.5 million of which is concerning the outstanding amount of the first bond loan of the Group, which will be refinanced by a bond loan being prepared with an amount between EUR 30 million and EUR 50 million and with a 6 or 7 years maturity. The new bond loan will provide additional funds to finance the expansion strategy of the Group, namely in international markets (see Forecasts).

In a favourable context of the financial markets, the Group took the opportunity to diversify their sources of funding through a securitisation of receivables in 2018 in an amount of EUR 30 million with a 3 years maturity, which may be extended.

The Group's short-term debt at the end of 2018, equivalent to 21% of total debt, amounted to EUR 68.2 million. As usual in the Group's activities, this debt was composed mainly of bank overdrafts that amounted to EUR 38.6 million to finance the real estate development programs, in addition to the portion of the medium and long-term debt that matures in the short term (EUR 27.5 million) and EUR 2.2 million of accrued interest related to bond loans. The repayment of the bank overdrafts to finance the real estate development programs will be done with the sale in VEFA, whose receipt depends on the degree of completion of the project. It should be noted that the Group monitored regularly the evolution of these projects and expects to complete 18 residences in 2019 and 27 in 2020. It should be noted that, excluding the bank overdrafts to finance the real estate development programs, the significant amount of Group's cash and deposits at the end of 2018 (EUR 47.2 million) covered its short-term debt.

Concerning the interest rates, the Group's medium and long-term debt is most at 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 four swaps contracted by the Group at the end of 2018 are valued at their fair value in the Group's accounts. At the end of 2018 the latent loss related to these financial instruments was not significant. 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 increased to EUR 1.8 million (from EUR 1.2 million previously), in the context of more significant net profit, was reinforced by close to 12% in 2018, to nearly EUR 99 million at the end of the year. However, in the context of significant medium term investment and acceleration of the real estate development activity, to reach a higher level of funds generation in the future, the equity / assets ratio stabilised around 17% at the end of 2018. 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 18.6% at that date.

FORECASTS

In May 2019, the Group updated its business plan for the period 2019-2023 (base scenario), based on 2018 figures. The growth strategy of the Group continues mainly in the French market, however considered already some expansion to neighbouring countries as a result of previous prospection. In fact, it is expected that more than 20% of the new residences will be located abroad: in Belgium (where the Group's international development and operational structure is based); in Luxembourg; in Switzerland; in Polonia; in Germany and in Portugal.

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 13,300 (equivalent to 39%) to reach circa 40,000, through annual increases more significant in 2020 and in 2022. The Group forecasts increase in its three business segments, particularly in accommodation units for seniors (more than tripling). This should translate into the opening of 115 new residences, 68 of which for seniors (with greater use of co-promotion, most of them under the Les Girandières brand). This will allow the Group to reach a more diversified and balanced mix of accommodation units in operation and management by 2023, reaching nearly one quarter of the total for seniors and about half for students (benefiting from the Group's history in this business segment). The international activity will represent less than 10% of the total accommodation units in operation and management by the Group.
- Reinforce the relationship with institutional investors, namely regarding to the international accommodation units' sales since 2020, while maintaining the relationship with particular investors (around 1,200 p.a.). Therefore, the Group forecasts an increase of the level of total accommodation units' sales, to circa 2,300 p.a. as from 2020 (compared with the previous level of circa 1,600 p.a.), increasing the balance between both type of investors. The block sales present some comparative advantages.
- Reinforcement of the property portfolio by approximately EUR 300 million, of which more than EUR 170 million of operational assets, related to the residences expected to enter into operation, and EUR 88 million in investment property. Regarding the investment property, which the Group assumed as a reserve of value, it considers a valuation of EUR 6.5 million in 2019 followed by moderate annual valuation below EUR 4 million.

The favourable inversion of birth curves in the mid-1990s in France, suggests that the activity of residences for students will enter an increasing phase. Prudently, the Group forecasted a moderate annual growth in turnover (of 1% p.a. except in 2020 and in 2021, of 6% or 7% related to the expected increase of the number of accommodation units) and an almost stabilisation in the average margin in the 2019-2023 period.

In the aparthotels segment - excluding the Relais Spa residences (see below) - the Group's perspectives point to an annual average growth in turnover of 5% and, in the context of new residences entering in operation, a margin decrease in the period 2019-2021 and a recovery in 2022/2023.

With regards to the Relais Spa in Roissy, the high range aparthotel, the Group expects a 7% average turnover increase in 2019 and a modest increase in the following years. Through the financial restructuring plan, including the renewal of contracts with investors in 2019 and in 2020 and a recapitalization by the Group, the equilibrium is predictable in 2022.

The Relais Spa Val d'Europe is located on a developing area which creates a greater dynamism that the Group seeks to take advantage. It reinforced its marketing actions to promote the conference space of the aparthotel. The Group expected a 4% increase of turnover in 2019, followed by low increases in the 2020-2023 period. Its turnover could be higher in 2022, when the Disneyland Paris Park commemorate the 30 birthday. The Group expects this residence remain in deficit by around EUR 0.5 million p.a. over this period.

The French statistics point to a significant increase in the number of seniors aged 65 or more in the coming years. Given the lack of adequate housing for them and the improvement in disposable income, this represents a growth opportunity for the residences for seniors with services business segment. The Group intends to take an important position in this market segment, that is experiencing rapid growth and increased competition. On the other hand, the Group wants to contribute to the improvement of the concept of residences seniors by offering a quality product, as it did in the two more mature segments, with a positive impact on its results. The Group expects a significant number of residences for seniors entering in operation annually in the 2019-2023 period, with a limited offer of top range residences. Therefore, without considering the foreign activity, the Group expects to reinforce its presence with 8 new residences in 2019, and 12 p.a. in the 2020 to 2013 period. Considering a maturity improvement in the market and the Group's more experience in this segment, it forecasts a further progression in the occupancy rate of its residences for seniors (from the time of opening, which is key to profitability). Therefore, it is expected a significant turnover increase, at a 37% annual average rate in the period (particularly in 2019/2020) and a gradual reduction of losses from 2020, as the base of residences in cruise speed increases, to reach the equilibrium in 2022.

Concerning the international activity, mainly residences for students, the Group forecasts an increasing contribution for the total turnover, from 0.5% in 2020 to 3.2% in 2023. In terms of earnings before taxes, in this first phase, it is not expected a significant impact.

In the context of increase of the development activity, that precedes an increase in management activity, the Group expects an improvement of the earnings before taxes. Regarding the Group's property portfolio, even in a context of some potential additional provisions concerning the Relais Spa Roissy, and conservative valuation of assets, it expects positive earnings before taxes (above the 2018 figure since 2021).

Globally the Group, prudently, considers one-digit annual increase of turnover (except 11% in 2021), i.e.

substantially lower than the expansion achieved in the past two years. The EBITDA margin is expected to improve from 2020, to 8.5%, compared with 6.6% in 2018, and to 12% in 2023 (doubling the 2019 expected figure), benefiting from economies of scale and increasing results from the co-promotion activity (recorded by the equity method). Therefore, the Group's forecasts an EBITDA improvement to the EUR 45 million level in 2020 (almost more 50% against the 2018 figure), above EUR 54 million in 2021 and close to EUR 79 million in 2023.

The high level of debt to finance the projected investment (of about EUR 300 million) will lead the Group to a high level of annual interest costs (more than one third compared with the 2018 figure). However, it is expected an improvement in the coverage of the net interest costs by EBITDA to 4.2 times in 2020 (after a decrease in 2019, in part due to one-off costs related to new sizeable financings, however better than the 2017 coverage). In the following years, the Group forecasts a more comfortable coverage of net interest costs by EBITDA to 5 times in 2021 and close to 8 times in 2023.

Earnings before taxes is expected to improve to nearly EUR 23 million in 2020, after a projected 11% decrease in 2019 mainly due the interest costs increase. In the 2021-2023 period is forecast a significant improve to more than EUR 45 million in 2023.

GROUPE RÉSIDE ÉTUDES BASE SCENARIO FOR 2019-2023 PERIOD (MILLIONS EUROS)

	2018	2019 (F)	2020 (F)	2021 (F)	2022 (F)	2023 (F)
A) Earnings Before Taxes	**13.7**	**12.2**	**23.0**	**29.4**	**39.2**	**45.4**
which						
Management Operation Activities	(4.4)	(3.6)	6.0	9.7	17.7	22.1
which						
Student Residences	5.6	6.3	9.3	9.2	9.1	9.6
Apparthotels Residences	(3.4)	1.1	2.0	5.0	6.6	7.5
which "Relais Spa"	(9.3)	(4.0)	(3.3)	(0.7)	0.0	0.0
Seniors Residences	(6.5)	(10.5)	(5.9)	(4.7)	1.9	5.6
International Activities	0.0	(0.5)	0.7	0.2	0.1	(0.7)
Real Estate Development Activities	11.0	9.2	11.2	12.6	13.1	13.9
Property Portfolio Activities	10.4	8.9	10.0	11.4	12.7	13.7
Holding Activities	(3.3)	(2.3)	(4.2)	(4.2)	(4.2)	(4.3)
B) Taxes and Participation	**(1.9)**	**(4.0)**	**(7.6)**	**(9.7)**	**(12.9)**	**(15.0)**
C) Net Profit from Activities (A + B)	**11.8**	**8.2**	**15.4**	**19.7**	**26.3**	**30.4**
D) Net Depreciation	**21.4**	**9.2**	**12.1**	**16.1**	**20.5**	**25.7**
D1) Elimination of Variation in Fair Value	**(15.3)**	**(6.5)**	**(2.6)**	**(3.1)**	**(3.7)**	**(3.8)**
D2) Others	(1.0)	0.0	0.0	0.0	0.0	0.0
E) Cash Flow Position (C + D + D1 + D2)	**17.0**	**11.0**	**24.9**	**32.7**	**43.1**	**52.3**
F) Variation of NWCR - Operational Activities	**44.2**	**15.2**	**6.8**	**(3.6)**	**(0.2)**	**(0.2)**
G) Cash Flow Position Corrected by the Variation of NWCR (E + F)	**61.2**	**26.2**	**31.7**	**29.1**	**42.9**	**52.1**
H) Investment Activities	**(51.3)**	**(61.5)**	**(57.9)**	**(57.5)**	**(58.4)**	**(65.8)**
which						
Tangible and Exploration Assets	n.av.	(29.8)	(29.0)	(30.5)	(37.3)	(46.1)
Investment Property	n.av.	(27.6)	(20.1)	(18.1)	(11.9)	(10.5)
I) Dividends	**(1.2)**	**(1.8)**	**(1.8)**	**(1.5)**	**(2.0)**	**(2.6)**
J) Medium and Long Term Debt Variation	**24.0**	**100.2**	**13.3**	**-16.3**	**17.6**	**10.8**

Notes:
(F) Forecast for 2019-2023; n.av. = Non available.

Sources:
Groupe Réside Études Business Plan.

As a result of the expansion of activity, and assuming a tax income of 33% (which is higher than the effective tax income in 2018), the Group expected growing annual cash flow position in the 2019-2023 period, except in 2019 (less 35% against 2018 figure). The total cash flow position in the 2019-2023 period is expected to reach EUR 164 million. Considering also the positive NWCR variation, this amount will increase to EUR 182 million.

In addition to its generation of funds, in order to finance the expansion of activity and to boost the cash and deposits, the Group forecasts the issuance of medium and term loans, in addition to the bank overdrafts related to the development activity (less than EUR 30 million per year). The most significant issuance of medium-and long-term debt is expected in the second half of 2019 (as already predict in the previous business plan), being prepared the following:

- a bond loan, between EUR 30 million and EUR 50 million with a maturity of 6 or 7 years. The proceeds of this loan will be applied in the payment of the outstanding amount of EUR 18.5 million of the bond loan that matures in October 2019, and in the financing of its expansion strategy, namely in international markets. In the business plan the Group considered EUR 50 million;
- refinancing part of its investment property and operational assets, with a long-term maturity (mainly with instalment payment), given that, globally, at the end of 2018 the loan to value (LTV) of the property portfolio stood at 53% level. The Group is preparing a syndicate long term loan in an amount of EUR 100 million. With this loan the LTV is projected to pass to the 62% level, which is expected to gradually improve. Circa of half the proceeds of this loan will be applied in the payment of the debt related to some of these assets. At the same time, in terms of structure, the Group will also carry out a reorganization of them.

Therefore, taking advantage of the large funding possibilities, the Group prepares to position itself at a higher level of debt, with the maximum forecast of EUR 447 million in 2023, and, at the same time, a higher cash level. The cash and deposits are expected to reach close to EUR 106 million in 2019, be above EUR 92 million in 2020 and, with the payment of the securitisation of receivables, decreasing to nearly EUR 49 million at the end of 2021 (close to EUR 44 million in 2023). In this context, the Group's net financial debt will gradually increase to more than EUR 400 million in 2023 (assuming the payment of EUR 30 million of the securitization of receivables in 2021, which may be renewed, and the renew of the bond loan that matures in February 2023). However, the Group expected an improvement of the net financial debt / EBITDA ratio to 7.5 times in 2020 (after a punctual 10.6 times forecasted for 2019, however below the 2017 figure), to below 6 times in 2022 and close to 5 times in 2023.

The Group forecasts the maintenance of a conservative dividends policy, retaining more than 90% of the future net results almost doubling its equity to EUR 191 million at the end of 2023. In the context of significant investment and expansion of activity, the base scenario indicates some decline in the equity / assets ratio (deducted of cash, cyclical resources and deferred tax liabilities) in 2019 and in 2020 to the 24% level (the same of 2017 and compared with 25% in 2018) and a gradual recovery from 2021 onwards, to 30.7% in 2023.

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, which ARC Ratings deems prudent regarding the management operation activity, we have considered - all other things remaining equal - reductions by 1.0 pp in return rates in management / operation of residences for students from 2013 to 2023 (i.e. 15% less against the base scenario) and aparthotels, except Relais Spa, from 2019 to 2023 (i.e. an average of 21% less against the base scenario). Additionally, ARC Ratings considered, in the years for which a decrease in return rates were estimated, the simultaneous occurrence of a 5% 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 16.5 million in the 2019-2023 period (i.e. one quarter less than in the base scenario). In the real estate development business ARC Ratings considered a decrease of 10% in the main revenues from 2019 to 2023, which would generate an impact in earnings before taxes of EUR -24.4 million (i.e. 41% less than in the base scenario). In addition, in the property portfolio ARC Ratings also considered a negative impact in earnings before taxes of EUR -10.8 million in accumulate terms (i.e. 19% less than in the base scenario).

Even in a scenario of simultaneous occurrence of falls in return and activity levels, partially offset by possible tax savings, the Group would continue to show a cash flow position of above 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 34.6 million throughout the 2019-2023 period (including annual deteriorations between EUR 6 million and EUR 7.6 million). In these potentially less favourable conditions, the gross cash position would still be around EUR 9 million at the end of 2023 (compared with EUR 43.7 million in the base case). However, in less favourable conditions to develop the activities, according to the Group, its management of business 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.

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 2018, this ratio is 0.39 times (an improvement compared with 0.67 times reached at 31 December 2017); provision non subordinated and (subject to a negative pledge clause), without any guarantee 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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