

BASSAC

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Boulogne-Billancourt, September 18, 2020

To the shareholders of Bassac,

These extraordinary times and the change of our governance induce me to write. Although we are deeply rooted in France, we also operate in Germany and Spain, I've therefore chosen to use the Esperanto of business, English.

Covid-19

Courage is a quality we admire. How not to mention the exceptional people revealed at the beginning of this crisis, when the virus stunned the world. Caregivers, doctors, employees in supermarkets and essential factories were admirable. Especially those whose profile was vulnerable for this disease. They are models for all of us.

This pandemic reminds us this quip from John Kenneth Galbraith: "The main function of economic forecasts is to make astrology respectable". You cannot predict crises, but you can prepare. For a company, the best way to prepare for an "off-category" shock is to have a prudent balance sheet with plenty of cash on hand. This is our case. While we may have a bias, we believe our balance sheet in December 2019 was one of the most conservative among publicly listed peers:

- nearly € 500,000,000 of tangible equity. This equity mostly finances – in order of liquidity: inventories of apartments under construction (liquid assets with one million transactions per year in France), contractual customer receivables signed with a notary, land in Germany and Spain with high margins on completion and, finally, our stake in Marignan.
- available cash including undrawn lines of credit of € 320,000,000
- net debt representing less than one year of net income and less than 20% of our shareholders' equity.

Our company is celebrating its 48th anniversary, hence the purpose of its current and future managers is to enable it to prosper for at least the next 48 years. This will not be easy: this crisis is a reminder of the surprises that economic history holds over a long period of time. For the Annual General Meeting of our holding company, I have listed for my family some of the risks that could materialize over the next five decades. Of course, some will not happen, others will take us by surprise. The main objective of the company's management is to survive these exceptional shocks, not to increase our figures next quarter:

- an extreme political party in power in France
- inflation and rapidly rising interest rates
- dismantling of the Euro-zone, re-denomination of bonds in Euro and devaluation of the new national currencies
- banking crisis preventing our customers from getting appropriate financing

- war between the USA and China or between India and China
- a pandemic much deadlier than Covid-19
- nuclear proliferation, biological attack
- climate change acceleration and uncontrolled migrations
- et cetera.

We must continue to manage our business prudently to be ready.

Name change

In December 2019, the name of your company changed, Les Nouveaux Constructeurs becoming Bassac. Of course, our real estate development business in France will continue under the brand Les Nouveaux Constructeurs. We felt the change in the parent company's name was critical to mark the clear independence between Marignan, of which we are now a large shareholder, and Les Nouveaux Constructeurs.

The choice of Bassac comes from our family history: our founder's father, Robert Mitterrand, spent his childhood alongside the reassuring silhouette of the Saint-Etienne de Bassac abbey, consecrated in 1015. This name also has the considerable advantage of not having required any onerous brand strategy advice. Same goes for the logo, whose font was created by the engraver Firmin Didot in the 18th century.

2019 Financial results and first half of 2020

Our net income - the only one that counts - amounted to € 99,700,000 in 2019, with strong contributions from our three countries, France, Germany and Spain. Robert Schuman declared in 1950: "Europe will not be made all at once (...), it will be made through concrete achievements". Since the launch of our activity in Spain in 1989, we have contributed a modest stone to the edifice.

This result was obtained from equity capital at the beginning of 2019 of € 444,800,000, and therefore corresponds to a net return on equity of 22%, a remarkable performance obtained with limited recourse to debt and in an unprecedented context of negative interest rates.

Looking at a long series, our average return on equity over the last twenty years has been c. 15%.

Even if we decide to distribute substantial dividends in the future (40% of our result in 2019), it will be extraordinarily difficult to maintain such a high return on equity in the next 20 years. We will nevertheless work hard to fructify the funds entrusted to us. We look up to the first servant of the Parable of the Talents (the Gospel specifies that he doubled his Talents but not the length of the Master's absence and hence does not allow us to give you a return target).

Our half-year results were impacted by the Covid-19 pandemic: construction sites were halted in France during lockdown, and our revenues and income from the percentage of completion obviously suffered. Operating indicators also slowed down sharply (bookings, notary signings). Conversely, our operations in Spain and Germany were barely impacted. While complying with health regulations, construction and sales have been quasi-normal since *deconfinement*.

Overall, at € 29,900,000, our half-year net income was pleasantly resilient, thanks notably to important deliveries in Spain.

Les Nouveaux Constructeurs

Real estate developer of housing and offices in France

A very good year in 2019, despite the natural impact of capitalism on the erosion of our profession's profitability. Indeed, the strong growth in housing starts filled the order books of our construction companies, which increased their prices all the more sharply as they emerged from a period of lean times. On the other hand, competition for land was particularly intense, with the pre-election period reducing the supply of building land, but not the enthusiasm of developers.

As a result, the two main components of our costs have been subject to significant inflation in 2018 and 2019. These upward curves seem to have flattened in recent months, but remain elevated.

In terms of sales, volumes were historically high, the result of a broad offer and affordability (no wonder, with negative rates...). The elimination of the "*Coefficient d'Occupation des Sols*" and the maturing of projects started after the previous municipal elections led to record production in 2018 and 2019.

Prices have risen a little, especially in rich municipalities, whose housing supply is often inelastic. Markets that are heavily dependent on rental investment have also experienced inflation, because prices are very sensitive to financing conditions and to the success of the current tax-exempt scheme (the famous "Pinel"). A telling anecdote on financing conditions: our average customer today obtains cheaper financing than Switzerland before quantitative easing.

Our good financial performance is visible in our reports, not the quality of delivery to our customers: for the tenth consecutive year, we improved it. The average number of defects per apartment delivered by Les Nouveaux Constructeurs in France in 2019 was 1.1. For instance, the Paris region team, delivered 942 apartments with 0.7 defect on average. Hats off to Maxime and his team.

The governance of Les Nouveaux Constructeurs changed in 2019, with Fabrice Desrez becoming Chief Executive Officer and Ronan Arzel deputy CEO. Ronan and Fabrice have been wearing the LNC colors for 50 years between them. They form an extraordinary duo, it's a rare privilege to work alongside them.

Marignan

Real estate developer of housing and offices in France

The investment bankers had given up hope of selling us a competitor, after years of unnecessary confidentiality agreements. We were patiently waiting for the eventual sale of Marignan, a subsidiary of a Dutch bank, Rabo Bank. We preferred to focus our efforts on a large national acquisition that would remain independent of Les Nouveaux Constructeurs, having mixed past experiences in integrating small developers. Marignan, with its very important capital employed, its strong brand, its solid reputation, was the ideal fiancée.

A sales process was launched in early 2018, won in July 2018 with Aermont Capital. Aermont is a real estate fund led in continental Europe by an excellent professional and even better partner, Vincent Rouget. Les Nouveaux Constructeurs (now Bassac) contributed 60% of the equity, Aermont 40%. We have also refinanced with our usual banking partners the debt lent to Marignan by Rabo Bank, the latter no longer wishing to have funds invested in France.

The headwinds that affected the sector in 2019 did not spare Marignan: rising construction costs, difficulties in obtaining building permits before local elections of March. We are shareholders for decades to come and are used to less favorable periods. If you study the history of our industry, buyers of national developers are cursed: a crisis is always just around the corner - to paraphrase Herbert Hoover. Large developers do not change hands at the bottom of the cycle.

To write a new page in Marignan's history, governance has evolved, with the appointment of Stéphane Cardarelli as Chief Operating Officer and Emmanuel Thomas as Chairman. We have known both for many years, and their energy, professionalism and common sense will be useful at Marignan.

Why did we double down in our sector, by acquiring a large stake in Marignan?

Firstly, returns on capital employed over a cycle are perfectly decent.

Secondly, the real estate development industry is here to last, we cannot imagine how it could be « *disrupted* ». Somebody will need to design, obtain building permits and coordinate construction. According to our veterans, all these missions are much more complex than in the 1980's, so we doubt they could be entrusted to an "App". 3D printing could replace concrete slabs in the future but you will still need a developer. Our job is not so different from that of the Pereire brothers in the current 17th *arrondissement* of Paris during the *Second Empire*. That's just as well, sudden change is the enemy of regular growth over a very long time, our Grail.

Commercial real estate

At Les Nouveaux Constructeurs as well as Marignan, we feel we did not yet scratch the surface of this important market. All operators are rightly worried about the impact of Covid-19 on office use. It will likely modify the way we work. But we believe offices are the cradle of a company's culture and will continue to be needed. The first purpose-built office building dates back to the East India Company in early 18th century's London. Three-centuries old phenomenon do not disappear overnight. However, in the short-term, rental demand will suffer.

The day of July 2012 when Mario Draghi uttered his famous words "whatever it takes", we should have bought all the office plots we could find, the fall in interest rates was an extraordinary boost for office prices. As Warren Buffett wrote, « Interest rates are like gravity in valuation. If interest rates are nothing, values can be almost infinite ». Instead of having this very valuable intuition, I was probably looking at ways to cut a 30 euros expense.

Concept Bau

Real estate developer of housing in Germany (Munich)

Recent years were quite similar to France: buoyant market, rising construction costs, and sharply rising land prices. Land inflation has been phenomenal over the last 5-6 years, with land prices having been multiplied by about 5-6 times (an unfortunate coincidence). This is the natural consequence of a dynamic market, land being the adjustment variable. Indeed, sales prices have doubled in Munich, with construction costs having increased by about 20%, the other costs being more or less fixed, the value of the land was automatically multiplied.

As a reminder, this leverage effect also works wonders in the event of a turnaround in the cycle: land in Spain saw its value divided by about four during the real estate crisis that began in 2007.

A good part of our financial success in 2019 comes from land acquisitions before the explosion in selling prices, so the long time it took to get our permits was hugely beneficial, we should even have dragged on. Our land acquisitions are now rare, as all players have fully understood Munich's attractiveness and are rushing at opportunities like a swarm of locusts. However, we have a large land portfolio and good visibility for several years to come.

At Concept Bau, Emmanuel Thomas and his team posted a spectacular margin in 2019 as they delivered beautiful apartments - for customers and shareholders alike.

Zapf

Garage manufacturing in Germany

We bought a controlling stake in Zapf in 2006, for their real estate development business. But the core business of the company is concrete pre-fabrication and real estate development does not tolerate well not being « *core* », so we had to shut it down promptly. The company then suffered from over diversification and over-extension in 2012.

Leadership changed and a long restructuring ensued. Today, our garage business is sound and run by Jörg Günther, our former industrial director.

Premier España

Housing development in Madrid and Barcelona

Spain experienced a brutal and long crisis from 2007 onwards. The fall in volumes and prices of new build housing was spectacular (around 80% and 40% respectively). We suffered a lot in 2008 although we felt protected by our focus on primary residence and our absence from coastal markets.

We have maintained the activity and a good part of our team, notably by building social housing (where the price of land and housing is regulated to allow lower income clients to buy). This is a low-margin activity in normal times, but the disappearance of competition had made it attractive in (very) lean times. In recent years, we have resumed the acquisition of regular land, with remarkable success due to the very sharp drop in land prices and construction costs. Unfortunately, here too, construction costs have increased sharply since 2018. In Spain, we buy the land immediately, before we have designed the project or pre-sold apartments. Consequently, when we are wrong, we have to launch the program anyway, we cannot give up or review conditions with the plot owner. This is a major difference with the French model, where land is under option until all risks are controlled.

While not as cheap as during the sovereign crisis, the land market in Spain has remained sound, as banks have not yet really started lending again to buy land, so we grew our land portfolio in good conditions. Plot prices are still far from the peak of 2006.

Kwerk

Co-working in Paris

Another story of professional friendship, Kwerk was founded by a classmate, Lawrence Knights. In 2015, having lived in New York, Lawrence was convinced of the relevance of co-working and wanted to create a company in France, long before the phenomenon was popular. Of course, totally lacking in flair, I was not convinced, but we had an empty level in our headquarters. Lawrence and his talented design partner Albert Angel, created Kwerk with this first attempt in Boulogne-Billancourt. Since then, we opened several centers in Paris and co-working has become very fashionable. This business consumes little capital but many off-balance sheet commitments (guarantees for landlords).

Some famous competitors had an aggressive policy of opening centers, even if it meant accepting to increase their losses (centers are usually loss-making at opening). We do not intend to resort to accounting "adjustments" that magically transform very real cash losses into positive "community-adjusted EBITDA". We therefore limit ourselves to markets we know well, and do not set any target for center openings, in order to maintain prudent selection criteria.

Kwerk should be quite impacted by Covid-19, as you imagine, especially their seminars and events business. It is rather small for Bassac though, with only five centers to date.

Capital Allocation

We are the natural (but not obligatory) buyer of Aermont's interest in Marignan and will therefore have the opportunity to invest a significant amount in France in the coming years.

Our activities in Spain and Germany are opportunistic: we only invest if we feel we are making good transactions. Our limited fixed costs allow us to accept large changes in volumes. If we do not find anything exciting, our land acquisition policy will be inspired by Ötzi, the Iceman.

A company's distribution policy should reflect the managers' confidence in the prudence of the balance sheet and in their ability to reinvest retained earnings appropriately, this will guide our recommendation for dividends in the future.

We have chosen to maintain our dividend this year, despite generalized cuts among listed companies, just as we have honored other liabilities (salaries, taxes, suppliers, etc.).

Stock quotation

The company's market capitalization has experienced high volatility, not always a compelling example of the efficient markets theory.

Our family holding company, Premier Investissement, has naturally increased its stake over the years. Bassac is willing to ensure a good liquidity of the shares, notably through the liquidity contract operated by Portzamparc. We have maintained the company's listing for our colleagues and our longstanding shareholders.

Moïse Mitterrand