Statement in relation to senior debt downgrade

UPP Bond 1 Issuer PLC, 24 April 2020

UPP Bond 1 Issuer PLC (the 'Company'), notes Standard and Poor's Global Ratings (S&P) decision to revise downwards the current credit rating on the senior secured debt issued by the Company. The ratings on the £307.1 million of senior secured fixed-rate notes due February 28 2040; the £75.0 million of senior secured index-linked notes due August 31 2047; and the £149.7 million of index-linked notes due August 31 2049 have moved to BBB+ from A-. The rating outlook for the notes, issued under the £5.0 billion multicurrency issuance programme, has been revised from stable to negative.

The Company notes that downgrades have taken place across many ratings in response to the COVID-19 crisis. It also recognises there is increased uncertainty with respect to the beginning of the Academic Year 2020/21 reflecting uncertainty over the timing of the relaxation of social distancing and international travel restrictions. However, the Company believes that the decision to revise S&P's base case, and downgrade the credit rating as a result, reflects an unduly conservative view of short-term risk and sees no basis for negative revisions to long-term assumptions.

Short-term risk

In terms of the short-term risk to occupancy, the Company is of the view that a combination of mitigating activity undertaken by Government and the sector; the capacity of universities to refocus their recruitment; and the credit positive elements of the Company's business model, have the capacity to significantly ameliorate risks to occupancy.

- The Minister of State for Universities confirmed on 20 March 2020 that "there is no reason for the usual admissions cycle to be disrupted". The Department for Education has outlined an intent to remain with the existing applications and admissions timetable in place with UCAS. Universities have been requested to demonstrate flexibility with respect to admissions given the current situation, and this includes international students (non-EU), who are being encouraged to continue applying to UK universities. GCE A-Level results in the UK are due for publication on 13 August 2020.
- The Company business model is one located on-campus, providing accommodation to new UK and EU-domiciled undergraduate students who typically have a guaranteed offer of accommodation from their chosen university. International students represent circa 10-15% of undergraduate students in residence (variable by institution) but can be readily substituted for an increase in UK/EU student recruitment and/or returning students, should demand decline.
- Universities UK is working with the Government to establish a one-year stability measure for the recruitment of UK and EU-domiciled undergraduate students, additional flexibilities in the visa system to support international students planning to start courses this autumn and a delay to the introduction of the new EU immigration system to stabilise demand from students domiciled in the EU.
- UPP Bond 1 benefits from cross-collateralisation incorporated in the structure of the Project and a degree of revenue diversification. UPP Bond 1 permits the Issuer to support any underperforming operating company through cash-pooling at the parent holding level, in the event that a short-term fall in demand should occur.

- Whilst there remains some uncertainty regarding how the situation will develop, as of 24 April 2020, portfolio lettings for the Academic Year 2020/21 are ahead of bookings year on year.

Long-term outlook

With respect to the reduction of the long-term base-case occupancy assumption for the assets, it is the view of the Company that this is not supported by the projected market outlook. This view is based on the following considerations:

- The UPP Bond 1 portfolio has achieved in excess of 99.0% occupancy each year since its inception, with an average of 99.7% over the last six years. This is in excess of S&P's previous base case assumption of 98.0% and contrasts with the decision to assume 96.0% occupancy moving forward.
- Demand modelling by the Higher Education Policy Institute to 2030 has identified that the demographic decline in 18-year-olds, which halted in 2019, will be followed by an increase in the young population of circa 23.0% during the next decade. This will lead to a minimum increase in demand for higher education of 50,000 places on the basis of demography alone and up to 350,000 places assuming increases in participation. https://www.hepi.ac.uk/2018/03/15/demand-higher-education-2030/
- The continuity of the proportion of students choosing to live on campus rather than at home. More than 80.0% of students still live away from home and this figure has remained constant despite increases in the cost of participation. https://www.hepi.ac.uk/wp-content/uploads/2019/11/HEPI_Somewhere-to-live_Report-121-FINAL.pdf
- There remains a significant structural shortfall in residential supply, despite the development of an estimated 327,000 bed spaces over the last decade. https://www.cushmanwakefield.com/en/united-kingdom/insights/uk-student-accommodation-report
- The number of young people aged 25 to 34-years-old with a tertiary qualification increased by nearly 45.0% in OECD and G20 countries between 2005 and 2013. OECD projections expect this increase to continue until at least 2030, which will see those with a degree qualification increase from less than 14.0% at the start of the century to more than 45.0% by 2030. This will underpin the continued global mobility of students from which UK higher education, as the most popular destination for international students outside the United States, will benefit. http://www.oecd.org/education/skills-beyond-school/EDIF%2031%20(2015)--ENG--Final.pdf

Our plans and activities in support of students, staff and our partners are aligned to the latest updated advice from Public Health England, albeit adapting plans as new information and advice becomes available. More details of our approach and related activities may be found in the following announcement on our Investor Centre, dated 16 April 2020: Trading update in relation to COVID-19 Outbreak

Liquidity

The Company receives rent from each institution, rather than directly from students, and these payment obligations are independent of whether the university itself receives rent from students.

All accommodation is open and operating. It is estimated that circa 25.0% of rooms across the portfolio are currently occupied and the Company is working closely with its partners to continue to support remaining residents in line with advice from Government and other relevant agencies.

The Company's liquidity position remains in line with expectations with reserve accounts funded in line with requirements.

Summary

The Company believes that its business model is robust and that it is well positioned to continue to deliver strong operational performance from a portfolio of assets that are central to the operations of our university partners.

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