
2017 first-quarter business and earnings

- **Commercial drones accelerating (revenues up +73%)**
- **Prosumer drone range launched**
- **Upturn in gross margin confirmed (40% of revenues)**
- **Business reorganization rolled out**
- **Operating losses reduced significantly**
- **Strategic and capital partnership** finalized between Parrot Automotive and Faurecia
- **Parrot Automotive assets revalued with a very positive impact on net income (6.7 million euros in net income)**

Henri Seydoux, Parrot's Chairman and Chief Executive Officer: *“The results for this first quarter demonstrate the strength of Parrot since it was created more than 20 years ago. In a sector that is inherently constantly evolving, its core genetic features as a startup, always at the leading-edge of digital transformations, are supporting its development. At the crossroads between our two approaches for consumer drones and commercial drones, Parrot is today opening up a new segment with a promising future, SMEs and mid-market companies, providing them with new solutions that are tailored to their specific needs, bringing together all the technologies and services offered by the Group. I am particularly pleased that this ambition is being supported by the progress made with our quarterly results: revenue growth for our drone activities, acceleration for commercial drones, good recovery with our gross margin. Building on these sound financial foundations, we will be able to continue moving forward in this strategic direction with confidence, redeploying our business”.*

First-quarter business and highlights

- **Prosumer range launched in May 2017**
 - Created through synergies between the Consumer Drone and Commercial Drone activities, the Parrot Professional range is starting up with a dedicated offer for small and medium businesses, from the agriculture, architecture, construction, engineering and real estate sectors..
 - Parrot Professional's solutions are reliable and affordable all-in-one multi-purpose tools, developed based on Parrot's consumer drones (Bebop 2 and Disco) which have already successfully proven their capabilities in terms of handling, robust design and simple piloting. They also include precision sensors and professional software adapted for the needs of SMEs. This range, rolled out globally country by country, will gradually become available online and through specialist resellers.
 - These solutions will complement the current range, while highlighting the commitment by Parrot and its commercial drone subsidiaries on the commercial drone market. With a suite of advanced, recognized solutions delivering value-added data for key accounts, Parrot is now effectively positioned to also serve the specific needs of small businesses.
- **Strategic and capital partnership finalized between Parrot Automotive and Faurecia**
 - The agreement for the partnership between Parrot Automotive SAS¹ and Faurecia was signed on March 24, 2017. The press release from March 27, 2017 details the structure under which Faurecia will gradually take control of Parrot Automotive based on an entry value of 100 million euros. The partnership also plans to share future value creation between the partners, based on valuation parameters that are consistent with those retained for this initial investment and assessed based on the performances from 2021.

(1) The OEM Automotive business, which generated 66.8 million euros of revenues in 2016, representing 29% of the Group's revenues and a gross margin of 37.3 million euros in 2016. The Retail Automotive business (35.3 million euros of revenues in 2016) is not concerned by this partnership.

• Operational rollout of the reorganization of the business

- The plan launched in January 2017 to reorganize the consumer business was completed to a great extent during this first quarter. For France, an agreement was signed on March 10, 2017. Alongside this, the restructuring of the commercial agencies and subsidiaries outside of France has been completed. The vast majority of departures, i.e. 245 people, were recorded in early May. The target for a 30% reduction in the cost structure has been confirmed. This transformation phase is progressing well, making it possible to revise the reorganization costs down to around 16 million euros (compared with the 20 million euros previously estimated).
- Now in a redeployment phase, the Group is making certain changes to its group management structure: Gilles Labossière, Parrot's Chief Financial Officer since 2008, has been appointed as the Parrot Group's Executive Vice President. Alongside Henri Seydoux, who will head up the R&D department and continue to lead the Industrialization and Production and Human Resources management teams, Gilles Labossière will have group responsibility to oversee the deployment of the commercial drone strategy, while leading the management teams for Sales & Marketing, Finance, Legal and Information Systems. Further supporting the reorganization is the appointment of Chris Roberts as Chief Sales & Marketing Officer for Parrot Drones (Consumer & Prosumer) in late 2016.

2017 first-quarter earnings

Following the partnership agreement between Parrot Automotive and Faurecia, the accounts for the first quarter of 2017 are presented under IFRS 5 (assets and liabilities held for sale and discontinued operations): the figures given below for 2016 have been restated to be comparable.

• Resumption of revenue growth

IFRS, €M (details appended)	Q1 2017	Q1 2016 restated	Change	Q4 2016 restated
Revenues	28.6	16.0	+79%	67.1
- Commercial drones	9.7	5.6	+73%	8.9
- Consumer drones	12.2	-3.1	NA	45.1
- Other consumer products	6.8	12.7	-46%	12.3

Commercial drones

Commercial drones generated 9.7 million euros of revenues (34% of Group revenues), up 73% from the first quarter of 2016. Equipment sales (5.3 million euros, +100% vs. Q1 2016) have been driven by the renewal of the range at end-2016 and the expansion of the distribution network, with a strong international focus. Alongside this, senseFly has secured new partnerships (Airware, Agribotix, HumingBird, Maptek) making it possible to deploy complete, advanced solutions that are effectively aligned with the needs of key account customers, while opening up access to outstanding new retailers (Caterpillar). Sales of software and services (4.4 million euros, +42% vs. Q1 2016) have continued to be supported by Pix4D's success. The mapping and modelling software specialist has continued to develop its multi-sector offering (inspection, construction, agriculture, real estate) and adapted its expertise in line with the needs of the dedicated Parrot Professional range, focused on the prosumer market. In addition, Airinov, MicaSense and Air Support are continuing to invest in the big data analytics sector serving end customers.

Consumer drones

Consumer drones generated 12.2 million euros of revenues (43% of Group revenues). The first quarter's sales benefited from a very favorable basis for comparison compared with the first quarter of 2016, enabling the Group to build up a pipeline of growth for 2017 and maintain its dynamic commercial development focused on reestablishing its gross margin, which the new prosumer range in particular will contribute towards.

Other consumer products

Other consumer products recorded revenues of 6.8 million euros (23% of Group revenues), down 46%. The contribution in terms of margins is very positive and the contraction is consistent with the expectations of the Group, which is focusing in priority on developing its drone activities.

• First benefits of the reorganization and results turned around

IFRS, €M (details appended)	Q1 2017	Q1 2016 restated	Change	Q4 2016 restated
Revenues	28.6	16.0	+79%	67.1
Gross margin	11.4	-5.8	+296%	20.4
% of revenues	39.8%	-36.3%		30.4%
Income from ordinary operations	-18.8	-41.5	+55%	-33.1
% of revenues	-65.7%	-259.4%		ns
EBIT	11.0	na	na	-38.9
% of revenues	38.4%			ns
Net income (Group share)	7.0	na	na	-44.7
% of revenues	24.3%			ns

The consolidated **gross margin** for the period climbed to 39.8% of revenues, a significant improvement compared with 2016. This performance reflects the positive contributions made by the change in the product mix focusing on commercial drones and sales of other consumer products. In addition to the product mix, the Group is rolling out a policy to improve its gross margin based on a better selection of distribution networks and a realignment of sales around the most buoyant territories, with their results expected to be seen over the coming quarters.

Current operating expenditure totaled 27.8 million euros (excluding external marketing costs), down 4.2 million euros from the first quarter of 2016. EBIT came to -18.8 million euros, compared with -41.5 million euros for the first quarter of 2016. This reduction reflects only part of the impacts of the reorganization plan rolled out in the first quarter of 2017. The forecast for a 30% reduction in the cost structure for the year is being confirmed.

At March 31, 2017, the Group's **workforce** (permanent and fixed-term contracts) represented 737 people (854 at December 31, 2016), in addition to 19 external contractors (17 at December 31, 2016). The global reduction in staffing levels will continue over the coming months in line with the expectations and priorities of the Group, which will also be recruiting around 30 people for the Commercial Drone business in the first half of 2017.

Non-current operating income represents 29.7 million euros, reflecting the impact of the revaluation of Parrot Automotive SAS for 45.4 million euros (excluding 5.0 million euros of tax and costs), largely offsetting the 15.7 million euros of non-recurring expenses resulting from the reorganization.

Net income represents +6.6 million euros, up from -40.1 million euros for the first quarter of 2016 (reported accounts).

Cash flow and balance sheet at March 31, 2017

At March 31, 2017, Parrot had 174.7 million euros in net cash (184.8 million euros at December 31, 2016). Operating cash consumption represents 18.7 million euros, including 4.4 million euros of non-recurring expenses and 1.0 million euros of changes in working capital requirements.

The Group's shareholders' equity represents 297.1 million euros (290.3 million euros at December 31, 2016), with a total balance sheet of 486.8 million euros (506.6 million euros at December 31, 2016). Inventories have been normalized and represent 43.6 million euros (versus 46.4 million euros at December 31, 2016). The 31.2 million euros in trade receivables (59.8 million euros at December 31, 2016) and 33.5 million euros in trade payables (52.1 million euros at December 31, 2016) are in line with current needs and highlight the improvement in the supply chain.

Outlook for 2017

• Second quarter: continued turnaround for the Group

For the second quarter, Parrot's redeployment highlights its agility and the flexibility of its business model. It will accelerate its turnaround, driven by growth in commercial drones and the benefits of the reorganization in terms of the cost structure. The base effect is not favorable for consumer products due to the seasonal trends for marketing campaigns: the promotional operations carried out in May 2016 (*Flying Season*) will be positioned on the second half of the year in 2017; in any case, the Group will maintain its focus on continuing to reduce its operating losses.

Operational cash requirements will continue to be reduced. The change in cash for the quarter will be affected by payments for restructuring costs and the acquisition of the remaining 40% of Pix4D's capital.

Parrot is confirming all its full-year targets as announced on March 1, 2017 and outlined below.

Outlook published on February 27, 2017

Parrot is targeting global revenue growth and a significant improvement in profitability, before taking into consideration the potential capital gain with the revaluation of Parrot Automotive SAS in the Group's accounts.

Consumer Drones will be able to resume their growth in 2017, capitalizing on the current range and its upcoming developments, as well as a further acceleration for direct online sales, the conquering of new customer segments and geographical markets, and the improvement in marketing efficiency, building on the lessons learned from the 2016 campaigns. Consumer Drone growth will be particularly strong in the first half of the year, offsetting the **negative growth over the year for Connected Devices and Retail Automotive products** (car kits and plug & play), two activities that are now marginal. These two product lines will be managed focusing in priority on the margins achieved.

The Group expects growth to accelerate for Commercial Drones, thanks in particular to a new development phase for equipment. This is based on an order book with positive trends for next-generation drones and continued progress with sales of software and services, driven by market growth and the wider range of solutions introduced by the Group. Parrot will continue moving forward with its strategy to acquire interests in firms and establish technological and commercial partnerships, while ramping up its own resources to support its technological lead and commercial expansion.

Growth in the Commercial Drone business, the changes in the range of Consumer Drones to ensure effective control over margins, and the industrial optimizations rolled out in 2016 are expected to pave the way for a **strong improvement in the gross margin**.

Globally, the growth achieved and the turnaround in the gross margin, combined with cost reductions, will make it possible to **significantly reduce operating losses and net losses**, before factoring in the potential capital gain with the revaluation of Parrot Automotive SAS in the Group's accounts.

Parrot is becoming a pure player for consumer and commercial civil drones, and confirming its business development plan, which is targeting a return to profitability by 2018. Driven by an outstanding range of solutions covering consumer and commercial drones, sensors, software and services, and with a reconfigured organization, solid financial resources, industry-leading technological expertise and a repositioning of its research to support the new breakthrough phase, Parrot is confirming its plans to continue to be one of the leaders in the rapidly expanding civil drone market.

Next financial dates

- **June 21, 2017:** Parrot's general shareholders' meeting
- **July 28, 2017:** 2017 second-quarter earnings

ABOUT PARROT

Founded in 1994 by Henri Seydoux, Parrot creates, develops and markets advanced technology wireless products for consumers and professionals. The company builds on a common technological expertise to innovate and develop in three primary markets:

- Civil drones: With recreational drones and solutions for professional use.
- Automotive: With the most extensive range of hands-free communication and infotainment ^[1]_{SEP} systems for vehicles on the market. ^[1]_{SEP}
- Connected objects: With a focus on audio and gardening.

Headquartered in Paris, Parrot currently employs more than 700 people worldwide and generates the majority of its sales overseas. ^[1]_{SEP}
Parrot has been listed on Euronext Paris since 2006. (FR0004038263 – PARRO) ^[1]_{SEP}

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APPENDICES

The consolidated accounts were approved by the Board of Directors on May 11, 2017. Following the partnership agreement between Parrot Automotive and Faurecia, the accounts for the first quarter of 2017 are presented under IFRS 5 (assets and liabilities held for sale and discontinued operations): the figures given below for 2016 have been restated to be comparable.

Breakdown of revenues by business

Consolidated accounts - IFRS (€M and % of Group revenues)	Q1 2017		Q1 2016 restated		Q4 2016 restated	
	Consumer drones and products	19.0	66%	9.6	60%	57.3
- Consumer drones ⁽¹⁾	12.2	43%	-3.1	-20%	45.1	67%
- Other consumer products ⁽²⁾	6.8	23%	12.7	ns	12.3	18%
Commercial drones and solutions	9.7	34%	5.6	35%	8.9	13%
- Commercial equipment	5.3	18%	2.6	16%	4.0	6%
- Software and services	4.4	15%	3.1	19%	4.9	7%
Other	-0.1	0%	0.8	5%	0.9	1%
Group total	28.6	100%	16.0	100%	67.1	100%

(1) Sequoia products are recorded in the “consumer drones” subcategory.

(2) Grouping together the Retail Automotive, Automotive Plug & Play, and Connected Devices (audio and connected garden) product lines.

Consolidated income statement

IFRS in €M and % of revenues	Q1 2017	Q1 2016 restated	2016 restated
Revenues	28.6	16.0	166.4
Gross margin	11.4	-5.8	26.8
% of revenues	39.8%	-36.3%	16.1%
R&D costs	-10.7	na	-52.7
% of revenues	37.5%		31.7%
Sales and marketing costs	-12.0	na	-68.4
% of revenues	41.8%		41.1%
General and administrative costs	4.3	na	-20.4
% of revenues	15.0%		12.2%
Production and quality costs	3.2	na	-16.5
% of revenues	11.1%		9.9%
Income from ordinary operations	-18.8	-41.5	-131.2
% of revenues	-65.6%	-259.4%	-78.8%
Other operating income and expenses	29.7	na	
EBIT	11.0	na	-136.5
% of revenues	38.4%	na	-82.0%
Financial income and expenses	0.1	na	-2.0
Income from associates	ns	na	ns
Income from discontinued operations, net of tax	-0.6	na	-
Corporate income tax	-3.8	na	-8.1
Net income	6.6	na	-141.4
Minority interests	-0.3	na	-3.5
Net income (Group share)	7.0	na	-137.9
% of revenues	24.3%		-82.9%

na: not available; ns: not significant.