Parrot

PRESS RELEASE
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2017 second-quarter business and earnings

- **Continued strong growth for commercial drones (Business solutions +42%)**
- **Upturn in gross margin confirmed (44.5% of revenues)**
- **Business reorganization finalized (30% reduction in the cost structure)**
- **Full-year targets confirmed**

Henri Seydoux, Parrot's Chairman and Chief Executive Officer: *"Our results for the second quarter are in line with our expectations and reveal a further improvement. The reorganization is now behind us and the redeployment is moving forward efficiently and effectively. Our efforts are reflected in our results and our projects, in terms of both our range of solutions and our organization, are making quick progress. With regard to consumer products, we are embarking on this second half of the year with a selective sales strategy, effectively managed marketing actions and stronger processes to ensure an agile approach to the strong seasonality at the end of the year. With our commercial solutions, we now cover the entire value chain – drones, sensors, software and services – to provide reliable and accurate data for customers, from very small businesses up to key accounts, and we are continuing to drive rapid growth in our markets".*

2017 second-quarter business and highlights

• Positive effects of the strategic redeployment confirmed

Consumer products: the consumer drone business is benefiting from the new organization, with its selective management of distribution channels, its effective control over sales prices and marketing actions, reflected in an improvement in the gross margin and net stock levels that have normalized. In terms of our range of solutions, work got underway to optimize the product portfolio as planned in the second quarter, with the launch of new packs (Parrot Bebop 2 Adventurer, Parrot Disco Adventurer, Parrot Bebop 2 Extreme, etc.), which are helping maintain the range's competitive position and will make it possible to manage the pricing policy more effectively in the second half of the year; other packs adapted for various customer segments will also be deployed in response to the strong seasonality of sales at the end of the year.

• Business solutions: commercial drones and solutions continuing to deliver strong growth

Created through synergies between the Consumer Drone and Commercial Drone activities, Parrot Professional, the dedicated range for very small businesses, SMEs and self-employed professionals from the agriculture, construction and real estate sectors, was launched at the start of the second quarter. This range has started to be distributed in Europe and Asia-Pacific through specialist networks for each business. The Group plans to extend the distribution network to include new channels and regions, while continuing to strengthen the Parrot Professional range to cover its target sectors.

The dedicated solutions for key accounts are continuing to achieve strong success, driven by the quality and precision of the data collected and the value added through their analysis. Alongside this, new services and offers are being rolled out to meet the specific needs of large companies and major operators, further strengthening the Group's competitive positioning and its visibility for its future development.

• Reviewing a proposed joint-venture to develop a dedicated range of Security and Defense solutions

Parrot is currently looking into a proposal for a joint-venture to develop a business with dedicated light drones for the Security and Defense market. The signing of this agreement would enable Parrot to deploy its software development know-how and advanced technologies for light drones on a third market segment for commercial drones, while highlighting the Group's outstanding level of expertise within the new drone industry.

2017 second-quarter earnings

Following the partnership agreement between Parrot Automotive and Faurecia signed on March 24, 2017, the OEM Automotive business (Parrot Automotive SAS and its subsidiaries Parrot Automotive Asia Pacific and, indirectly, Parrot Automotive Shenzhen) is presented under income from operations held for sale for the first quarter of 2017, then on an equity basis for the second quarter of 2017.
The figures for 2016 presented below have been restated to be comparable and have not been reviewed.

• Breakdown of revenues: sustained growth for Drone activities

IFRS, €M *(details appended)*	Q1 2017	Q2 2017	Q2 2016 restated	Change	H1 2017	H1 2016 restated	Change
Revenues	**28.6**	**35.1**	**40.5**	**-14%**	**63.7**	**56.5**	**+13%**
- Commercial drones	9.7	11.7	8.2	+42%	21.3	13.9	+54%
- Consumer drones	12.2	15.2	18.0	-17%	27.4	14.9	+84%
- Other consumer products	6.8	7.9	13.6	-42%	14.7	26.3	-44%

Business solutions (commercial drones)

Commercial drones generated 11.7 million euros of revenues (33% of Group revenues), up 42% from the second quarter of 2016. Drone sales are up 72% to 6.0 million euros, driven by the renewal of the range at end-2016 and the expansion of the distribution network, with a strong international focus, particularly through partnerships; the Group's fixed-wing drones are establishing leading positions in their fields. Sales of software and services climbed 19% to 5.7 million euros, despite a high basis for comparison from the second quarter of 2016 (special operations not renewed this year). The high-precision data analysis specialist, which is enjoying success across all the sectors (inspection, construction, agriculture, real estate), is continuing to develop its range of solutions and integrate with existing workflows, while the specialized precision farming startups are still in their early phases.

Consumer products

Consumer Drones: Consumer Drones generated 15.2 million euros of revenues (43% of Group revenues). As expected, the 17% contraction is linked to the promotional operations which aimed to clear stock in May 2016 and have not been repeated: the Group has focused on the profitability of its sales.

Other consumer products: Other consumer products recorded revenues of 7.9 million euros (23% of Group revenues), down 42%, in line with the first quarter. 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.

• Condensed income statement: gross margin continuing to improve

IFRS, €M *(details appended)*	Q2 2017	Q2 2016 restated	Change	H1 2017	H1 2016 restated	Change
Revenues	**35.1**	**40.5**	**-13%**	**63.7**	**56.5**	**+13%**
Gross margin	**15.6**	**9.7**	**+62%**	**27.0**	**3.8**	**+603%**
% of revenues	*44.5%*	*23.8%*		*42.4%*	*6.8%*	
Income from ordinary operations	**-11.4**	**-30.1**	**+62%**	**-30.1**	**-71.6**	**+58%**
% of revenues	*-32.4%*	*-74.3%*		*-47.3%*	*-126.7%*	
EBIT	**-7.9**	**na**	**-**	**-42.3**	**na**	**-**
% of revenues	*-22.4%*			*-66.3%*		
Net income (Group share)	**-8.9**	**na**	**-**	**-1.9**	**na**	**-**
% of revenues	-25.3%			-3.1%		

The consolidated **gross margin** for the period came to 44.5% of revenues; the improvement (+20pts) is in line with the Group's expectations. This performance reflects the positive contributions made by the change in the product mix focusing on commercial drones and the effective management of procurement costs and margins on consumer products, thanks in particular to a better selection of distribution networks and the realignment of sales around the most buoyant regions.

Current operating expenditure totaled 27.0 million euros, down 12.8 million euros year-on-year and 3.2 million euros from the previous quarter, thanks to the finalization of the reorganization, the savings measures rolled out and the work to optimize processes. EBIT came to -11.4 million euros, compared with -30.1 million euros for the second quarter of 2016. During this second quarter, the full-year target for a 30% reduction in operating expenditure was achieved and these efforts will continue over the second half of the year.

At June 30, 2017, the Group's **workforce** (permanent and fixed-term contracts) represented 596 people (versus 737 at March 31, 2017 and 854 at December 31, 2016), in addition to 20 external contractors (19 at March 31, 2017 and 17 at December 31, 2016). The organization's requirements for consumer activities have stabilized (295 staff at June 30, 2017) and new recruitments are still underway for commercial drone activities (261 staff at June 30, 2017).

Non-current operating expenses for the first half of the year came to 12.2 million euros and primarily concern restructuring costs. All the restructuring costs linked to the plan launched at the start of 2017 have now been recognized in the accounts.

Cash flow and balance sheet at June 30, 2017

At June 30, 2017, Parrot had 132.3 million euros in net cash (184.8 million euros at December 31, 2016). Operating cash consumption represents 14.2 million euros for the quarter, including 4.0 million euros of non-recurring expenses and 10.2 million euros of current operations. Financial investments represent 24.0 million euros and primarily concern the increase in the interest in Pix4D's capital to 95%.

The Group's shareholders' equity represents 281.7 million euros (290.3 million euros at December 31, 2016), with a total balance sheet of 435.2 million euros (506.6 million euros at December 31, 2016). At 37.6 million euros (versus 46.4 million euros at December 31, 2016), net inventories are in line with the Group's requirements. The 29.9 million euros of trade receivables (59.8 million euros at December 31, 2016) and 28.2 million euros of trade payables (52.1 million euros at December 31, 2016) reflect the normalization of working capital requirements thanks to the improvements in the processes deployed.

Outlook for 2017

- **Clarifications for the second half of 2017 and confirmation of the full-year targets**

Parrot closed out the first half of the year with 12.7% revenue growth, its gross margin up 35 points and its current operating losses reduced by 58%. The effective progress made with the reorganization and redeployment plan has rapidly been reflected in an improvement in the Group's results and demonstrated its agility to quickly and successfully adapt to changes in the competitive landscape on its various markets, while maintaining its capacity for development on the most promising drone segments.

For the second half of the year, Parrot will continue to focus on restoring its operational balances. In this context, Parrot will record a contraction in sales of consumer products and continued year-on-year and quarter-on-quarter growth for Business solutions (commercial drones).

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 a 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

- September 15, 2017: Kepler Cheuvreux Autumn Conference (Paris, France)
- October 4-5, 2017: European Large & Midcap Event (Paris, France)
- November 13, 2017: 2017 third-quarter earnings
- November 16, 2017: Natixis MidCap Conference (Paris, France)

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 systems for vehicles on the market.
- 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. Parrot has been listed on Euronext Paris since 2006. (FR0004038263 – PARRO)

For more information: www.parrot.com

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APPENDICES

Following the partnership agreement between Parrot Automotive and Faurecia signed on March 24, 2017, the OEM Automotive business (Parrot Automotive SAS and its subsidiaries Parrot Automotive Asia Pacific and, indirectly, Parrot Automotive Shenzhen) is presented under income from operations held for sale for the first quarter of 2017, then on an equity basis for the second quarter of 2017.
The figures for 2016 presented below have been restated to be comparable and have not been reviewed.

Breakdown of revenues by business

Consolidated accounts - IFRS (€M and % of Group revenues)	Q2 2017		Q2 2016 restated		H1 2017		H1 2016 restated	
Consumer drones and products	**23.1**	***66%***	**31.9**	***78%***	**42.1**	***66%***	***41.2***	***73%***
- Consumer drones(1)	15.2	*43%*	18.3	*45%*	27.4	*43%*	*14.9*	*26%*
- Other consumer products(2)	7.9	*23%*	13.6	*34%*	14.7	*23%*	*26.3*	*47%*
Commercial drones and solutions	**11.7**	***33%***	**8.2**	***20%***	**21.3**	***34%***	***13.9***	***25%***
- Commercial equipment	6.0	*17%*	3.5	*8%*	11.2	*18%*	*6.0*	*11%*
- Software and services	5.7	*16%*	4.8	*12%*	10.1	*16%*	*7.8*	*14%*
Other	**0.3**	***1%***	**0.7**	***2%***	**0.2**	***ns***	***1.5***	***3%***
Group total	**35.1**	***100%***	**40.8**	***100%***	**63.7**	***100%***	***56.5***	***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	Q2 2017	Q2 2016 restated	H1 2017	H1 2016 restated
Revenues	**35.1**	**40.5**	**63.7**	**56.5**
Gross margin	**15.6**	**9.7**	**27.0**	**3.8**
% of revenues	*44.5%*	*23.8%*	*42.4%*	*6.8%*
R&D costs	**9.0**	**15.3**	**19.7**	**27.1**
% of revenues	*25.6%*	*37.8%*	*30.9%*	*48.0%*
Sales and marketing costs	**9.8**	**14.3**	**21.8**	**28.4**
% of revenues	*28.0%*	*35.2%*	*34.2%*	*50.3%*
General and administrative costs	**5.1**	**6.1**	**9.4**	**12.7**
% of revenues	*14.6%*	*15.1%*	*14.8%*	*22.6%*
Production and quality costs	**3.0**	**4.1**	**6.2**	**7.6**
% of revenues	*8.7%*	*10.0%*	*9.8%*	*13.5%*
Income from ordinary operations	**-11.4**	**-30.1**	**-30.1**	**-71.6**
% of revenues	*-32.4%*	*-74.3%*	*-47.3%*	*-126.7%*
Other operating income and expenses	**na**	**na**	**-12.2**	**na**
EBIT	**na**	**na**	**-42.3**	**na**
% of revenues			*-66.4%*	
Financial income / expense	**na**	**na**	**-1.8**	**na**
Income from associates	na	na	-1.2	na
Income from discontinued operations, net of tax	na	na	43.5	na
Corporate income tax	na	na	-0.7	na
Net income	**na**	**na**	**-2.6**	**na**
Minority interests	na	na	-0.6	na
Net income (Group share)	**na**	**na**	**-1.9**	**na**
% of revenues			*-3.0%*	

na: not available; ns: not significant.

Parrot

Consolidated balance sheet

ASSETS - IFRS, €M	Jun 30, 2017	Dec 31, 2016
Non-current assets	**165.9**	**61.2**
Goodwill	42.4	43.6
Other intangible assets	2.9	3.9
Property, plant and equipment	5.8	8.1
Investments in associates	109.1	1.2
Financial assets	5.3	3.6
Deferred tax assets	0.3	0.7
Current assets	**269.3**	**362.6**
Inventories	37.6	46.4
Trade receivables	29.9	59.8
Other receivables	27.0	28.4
Other current financial assets	28.0	28.0
Cash and cash equivalents	146.7	200.0
Assets held for sale	-	82.8
TOTAL ASSETS	**435.2**	**506.6**
Shareholders' equity		
Share capital	4.6	4.6
Additional paid-in capital	331.7	331.7
Reserves excluding earnings for the period	-59.5	86.7
Earnings for the period - Group share	-1.9	-137.9
Exchange gains or losses	6.8	**5.2**
Equity attributable to Parrot shareholders	**281.7**	**290.3**
Minority interests	ns	-2.2
Non-current liabilities	**75.5**	**31.3**
Non-current financial liabilities	42.2	1.2
Provisions for pensions and other employee benefits	1.5	1.7
Deferred tax liabilities	1.7	0.5
Other non-current provisions	0.3	NS
Other non-current liabilities	29.8	27.9
Current liabilities	**78.0**	**173.4**
Current financial liabilities	0.3	42.0
Current provisions	18.1	15.6
Trade payables	28.2	52.1
Current tax liability	2.3	2.4
Other current liabilities	29.1	61.2
Liabilities held for sale	-	13.8
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**435.2**	**506.6**

Consolidated cash-flow statement

IFRS, €M	Jun 30, 2017	Dec 31, 2016
Operating cash flow		
Earnings for the period from continuing operations	-2,271	-69,058
Share in income from associates	1,203	385
Depreciation and amortization	7,161	6,918
Capital gains and losses on disposals	-45,020	3
Capital gain linked to remeasurement of the securities of companies previously recorded as long-term financial investments	-	-
Tax charges	720	681
Cost of share-based payments	-71	2,337
Net finance costs	76	340
Cash flow from operations before net finance costs and tax	**-38,200**	**-58,394**
Change in working capital requirements	6,856	524
Tax paid	-1,393	-1,622
Cash from operating activities (A)	**-32,737**	**-59,492**
Investing cash flow	**-**	
Acquisition of property, plant and equipment and intangible assets	-143	-7,027
Acquisition of subsidiaries, net of cash acquired(2)	-22,056	-29,055
Acquisition of financial assets	-2,008	-2,700
Disposal of property, plant and equipment and intangible assets	85	16
Disposal of subsidiaries, net of cash divested	-	-
Disposal of long-term financial investments	129	65
Cash flow from investment activities (B)	**-23,993**	**-38,700**
Financing cash flow	**-**	
Equity contributions(3)	0	476
Dividends paid	8,669	-
Receipts linked to new loans	41,004	24,974
Other financing	-	
Cash invested for over 3 months	-	30,000
Net finance costs	76	-340
Exchange hedging instruments	-	-
Repayment of short-term financial debt (net)	-42,033	-169
Repayment of other debt	-	
Acquisition of treasury stock(4)	-161	-2,301
Cash flow from financing activities (C)	**7,556**	**52,639**
Net change in cash position (D = A+B+C)	**-49,174**	**-45,553**
Impact of change in exchange rates	-4,118	-530
Cash and cash equivalents at start of period	**200,043**	**193,143**
Cash and cash equivalents at end of period	**146,750**	**147,060**

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