
2017 third-quarter business and earnings

- **Full-year ambitions confirmed for commercial drones**
- **Continued sales growth for consumer drones**
- **All impacts of measures to reorganize the business (38% reduction in the cost structure)**
- **Full-year targets confirmed**

Henri Seydoux, Parrot's Chairman and Chief Executive Officer: *"This third quarter was focused on our redeployment: this is moving forward effectively and the Group has brought on board new expertise to help drive the development of our commercial drone and consumer drone activities. We are looking ahead to this fourth quarter, with its strong seasonal trends in the retail sector, with a focus on managing the quality of sales rather than the quantity: elasticity and selectivity will be our key words through to the last day of the year. Looking beyond our sales for the end of this year, our roadmap for 2018 is now well underway".*

2017 third-quarter highlights

- **Consumer drones: renewal of the range and flexible commercial strategy**

Parrot has continued to renew its range of consumer products as planned: the Parrot Bebop 2 and Parrot Mambo have benefited from new differentiating features, particularly in terms of their flight time or piloting and camera applications, further strengthening the characteristics that are already very popular with these products: lightweight, easy handling, robust design and ease-of-use.

Parrot is maintaining its selective approach for managing its distribution channels and its flexible marketing strategy to respond to the fourth quarter's strong seasonality.

- **Business solutions: strong positions and a range of adapted solutions for small businesses to key accounts**

The Swiss subsidiary SenseFly (100%), the world leader for fixed-wing drones, is now able to offer complete solutions that combine dedicated business-specific software and services capitalizing on the Group's technologies or the partnerships developed recently. These are further strengthening its catalogue of drones and sensors for high-precision data collection for the construction, agriculture, mining, mapping and inspection sectors.

The Swiss subsidiary Pix4D (95%), the world leader for 3D drone mapping software, has notably been recognized by Intel with a partnership to develop drone data analysis and processing services for the new Intel Insights platform. Pix4D has also opened an office in Berlin, Germany, and launched a training and certification program to recognize its users' expertise.

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, is gradually developing its presence with retailers and end customers. At the end of October, two new Parrot Professional solutions were launched: a thermal inspection solution for law enforcement, public safety, construction and diagnostics (Parrot Bebop Pro Thermal), and a precision farming solution with a new drone designed to meet farmers' needs (Parrot Bluegrass).

- **Ambitions with dedicated solutions for the Security and Defense market**

Parrot is moving forward with the development of light drones for the Security and Defense market.

2017 third-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 as income from operations held for sale for the first quarter of 2017, then as income from associates since the second quarter of 2017. The figures given below for 2016 have been restated to be comparable and have not been reviewed by the statutory auditors.

• Breakdown of revenues: sustained growth for Drone activities

IFRS, €M (details appended)	H1 2017	Q3 2017	Q3 2016 restated	Change	9M 2017	9M 2016 restated	Change
Revenues	63.7	39.2	41.5	-5.5%	103.0	98.0	+5.1%
- Commercial drones	21.3	8.9	7.9	+12.7%	30.3	21.7	+39.6%
- Consumer drones	27.4	22.6	23.5	-3.8%	50.0	38.4	+30.2%
- Other consumer products	14.7	7.4	9.1	-18.7%	22.2	35.4	-37.3%

Commercial drones

Commercial Drones generated 8.9 million euros of revenues (23% of Group revenues), up 12.7% from the third quarter of 2016. The third quarter's commercial performance takes into account a seasonal contraction in business for precision farming drones, still largely focused on the northern hemisphere, as well as a high basis for comparison.

Sales of Software and Services are up 53.3% to 4.6 million euros and still characterized by the high percentage generated by Pix4D. Equipment sales show a temporary contraction, down 10.4% to 4.3 million euros, linked to a significant base effect, and this business is expected to continue growing strongly despite this quarter's commercial performance.

Consumer Products

Consumer Drones: Consumer Drones generated 22.6 million euros of revenues (58% of Group revenues). The turnaround is continuing, with sustained progress in sales each quarter, while the Group is firmly focused on the margins achieved.

Other Consumer Products: Other Consumer Products generated 7.4 million euros of revenues (19% of Group revenues), down 18.7%, although higher than initially expected, in line with the realignment of the Group's priorities to focus on drone activities; the contribution in terms of margins is very positive.

• Condensed income statement: gross margin continuing to improve

IFRS, €M (details appended)	H1 2017	Q3 2017	Q3 2016 restated	Change	9M 2017	9M 2016 restated	Change
Revenues	63.7	39.2	41.5	-5.5%	103.0	98.0	+5.1%
Gross margin	27.0	13.5	12.2	+10.6%	40.6	16.0	+153.7%
% of revenues	42.4%	34.3%	29.3%		39.5%	16.3%	
Income from ordinary operations	-30.1	-11.2	-27.4	+59.2%	-41.3	-99.0	+58.3%
% of revenues	-47.3%	-28.5%	-66.0%		-40.1%	-101.0%	
EBIT	-42.3	-12.6	NA	NA	-54.9	NA	NA
% of revenues	-66.3%	-32.1%			-53.3%		
Net income (Group share)	-1.9	-14.1	NA	NA	-16.1	NA	NA
% of revenues	-3.1%	-36.0%			-15.6%		

The consolidated **gross margin** for the period came to 34.3% of revenues, up 5 points year-on-year. The weaker performance compared with the first half of the year is due to seasonal sales trends, which are more favorable for Commercial Drones at the start of the year.

Current operating expenditure totaled 24.6 million euros, down 15 million euros year-on-year and 2.5 million euros from the previous quarter, thanks to the finalization of the reorganization, the savings measures rolled out and the work to optimize processes. The reduction (-38%) is above the full-year target to cut operating expenditure by 30%.

At June 30, 2017, the Group's **workforce** (permanent and fixed-term contracts) represented 572 people (versus 596 at June 30, 2017 and 854 at December 31, 2016), in addition to 25 external contractors (19 at June 30, 2017 and 17 at December 31, 2016). At September 30, 2017, the Consumer business had 275 employees, with 253 for the Commercial Drones business.

Cash flow and balance sheet at September 30, 2017

Net cash at September 30, 2017 represents 120.3 million euros (132.3 million euros at June 30, 2017). The net change represents -9.1 million euros and exchange rate differences comes to -2.9 million euros. Operations for the quarter consumed 12.1 million euros, and 1.5 million euros of financial investments. Cash requirements have been divided by two in nine months and the profits to be received over the next few years from the sale of the automotive business are making it possible to reestablish a capacity for investment that is effectively aligned with the Group's development plan.

Parrot's shareholders' equity represents 273.8 million euros (281.7 million euros at June 30, 2017), with a total balance sheet of 423.0 million euros (435.2 million euros at June 30, 2017). At 38.2 million euros (versus 37.6 million euros at June 30, 2017), net inventories are in line with the Group's requirements. Trade receivables came to 30.7 million euros (29.9 million euros at June 30, 2017), with 37.5 million euros of trade payables (28.2 million euros at June 30, 2017), in line with the upcoming seasonal trends.

Outlook for 2017

• Expectations for the fourth quarter of 2017

On the consumer drone market, Parrot will continue to focus on the quality of sales rather than the quantity, while ensuring that it has the flexibility needed, for this fourth quarter, to adapt its sales and marketing strategy in line with market developments.

The commercial drone business is expected to see strong growth, driven by dedicated drones and software for key accounts, while waiting for the solutions and services developed for very small businesses, SMEs and self-employed professionals (Parrot Professional and Parrot Air Support) to ramp up.

Looking beyond the fourth quarter, Parrot is preparing for 2018. With a reorganization and redeployment that have achieved their goals, Parrot will be looking to demonstrate its ability to manage its development plan and its margins effectively for consumer drones, while maintaining its global lead for commercial drones. Parrot is preparing to progress in growing markets supported by the maturity of the technologies, the stabilization of generally favorable legislation, and the precision and quality of the data provided for the various target market segments (mapping and inspection, construction and real estate, precision farming, law enforcement and public safety).

For 2017, Parrot again confirms that it is targeting global revenue growth, driven by growth in commercial drones and moderate growth for consumer drones, combined with a significant improvement in the gross margin and a major reduction in both operational and net losses. The performance and management of opportunities for sales of Other Consumer Products represent a potential risk for achieving the revenue target.

Next financial dates

- 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 600 people worldwide and generates the majority of its sales overseas. Parrot has been listed on Euronext Paris since 2006. (FR0004038263 – PARRO)

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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 as income from operations held for sale for the first quarter of 2017, then as income from associates since the second quarter of 2017. The figures given below for 2016 have been restated to be comparable and have not been reviewed by the statutory auditors.

Breakdown of revenues by business

Consolidated accounts - IFRS (€M and % of Group revenues)	Q3 2017		Q3 2016 restated		2017 nine months		2016 nine months restated	
	Consumer drones and products	30.1	77%	32.6	79%	72.2	70%	73.8
- Consumer Drones ⁽¹⁾	22.6	58%	23.5	57%	50.0	49%	38.4	39%
- Other consumer products ⁽²⁾	7.4	19%	9.1	22%	22.2	22%	35.4	36%
Commercial drones and solutions	8.9	23%	7.9	19%	30.3	29%	21.7	22%
- Commercial equipment	4.3	11%	4.8	12%	15.5	15%	10.9	11%
- Software and services	4.6	12%	3.0	7%	14.7	14%	10.8	11%
Other	0.2	1%	1.1	3%	0.5	0%	2.5	3%
Group total	39.2	100%	41.5	100%	103.0	100%	98.0	100%

(1) Sequoia and Parrot Professional 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	Q3 2017	Q3 2016 restated	2017 nine months	2016 nine months restated
Revenues	39.2	41.5	103.0	98.0
Gross margin	13.5	12.2	40.6	16.0
<i>% of revenues</i>	34.3%	29.3%	39.5%	16.3%
R&D costs	7.6	12.3	27.3	39.4
<i>% of revenues</i>	19.3%	29.5%	26.5%	40.2%
Sales and marketing costs	10.2	17.3	32.0	45.3
<i>% of revenues</i>	26.0%	41.7%	31.1%	46.2%
General and administrative costs	4.8	6.1	14.4	18.9
<i>% of revenues</i>	12.3%	14.7%	14.0%	19.2%
Production and quality costs	2.0	3.9	8.3	11.5
<i>% of revenues</i>	5.2%	9.4%	8.0%	11.7%
Income from ordinary operations	-11.2	-27.4	-41.3	-99.0
<i>% of revenues</i>	-28.5%	-66.0%	-40.1%	-101.0%
Other operating income and expenses	-1.4	na	-13.6	na
EBIT	-12.6	na	-54.9	na
<i>% of revenues</i>	-32.1%		-53.3%	
Financial income / expense	-1.0	na	-2.8	na
Income from associates	-1.3	na	-2.5	na
Income from discontinued operations, net of tax	-	na	43.5	na
Corporate income tax	0.4	na	-0.3	na
Net income	-14.4	na	-17.0	na
Minority interests	-0.3	na	-0.9	na
Net income (Group share)	-14.1	na	-16.1	na
<i>% of revenues</i>	-36.0%		-15.6%	

na: not available; ns: not significant.
