Parrot

PRESS RELEASE
Paris, August 1, 2019, 7am CET

2019 first-half earnings

- **Parrot confirms its realignment around the commercial drone market, which is continuing to grow**
- **The measures to reorganize consumer drone activities are delivering benefits, while first-half earnings were further strengthened by a reversal of provisions**
- **Earnings are in line with the target to retain €100m of net cash at end-2019**

Parrot Group's condensed earnings

The accounts for the first half of the year were examined by the Board of Directors on July 30, 2019. The limited review procedures on the condensed consolidated financial statements as of June 30, 2019 were carried out by the statutory auditors. The limited review report will be issued after the procedures required for its issuance are finalized.

IFRS 16: *The Parrot Group has applied IFRS 16 "Leases" since January 1, 2019. The Group has chosen to apply it based on the simplified retrospective method in accordance with IFRS 16. With this approach, the comparative information presented is not restated. The main impacts are detailed in the appendix and in the 2019 half-year report.*

Point for consideration: *The accounts for the period are also marked by a €2.2m reversal of provisions that had become obsolete following the change in the commercial strategy. This reversal is reflected in a positive impact on revenues, as well as all the other management balances.*

€m and % of revenues	H1 2019	H1 2018	Change
Revenues[(1)]	**39.7**	**55.0**	**-28%**
- Parrot Drones	16.6	34.9	-52%
- Pix4D	10.7	9.2	+16%
- senseFly	8.1	7.6	+7%
- Micasense	4.3	2.3	+82%
- Airinov	0.7	1.3	-49%
Gross margin	**25.2**	**23.2**	**+9%**
% of revenues	*63.6%*	*42.1%*	
Income from ordinary operations	**-13.0**	**-27.9**	**+54%**
% of revenues	*-32.7%*	*-50.8%*	
EBIT [(2)]	**-13.2**	**-26.0**	**+49%**
% of revenues	*-33.2%*	*-47.2%*	
Net income (Group share)	**-13.8**	**-32.1**	**+57%**
% of revenues	*-34.9%*	*-58.4%*	

(1) Details of revenues are appended.

Developments for the Commercial Drones and Solutions business (58% of revenues, +16%)

Over the first half of this year, the Group continued developing its commercial drones and solutions business and optimized its resource allocations. On this growing and still young market, the Group is continually assessing its ability to effectively serve professional, business and key account clients worldwide, and to generate a return on investment, which is still largely linked to the rate of growth on its core target markets ((i) 3D mapping, geomatics, and inspection, (ii) agriculture, and (iii) defense and security).

During the first half of this year[1]:

senseFly, the world leader[2] for fixed-wing drone solutions, generated revenues of €8.1m (+7%). The subsidiary, based in Lausanne and the US, has continued to adapt the production of its next-generation drones (eBeeX) launched at the end of 2018. It has also finalized the development of complete new solutions, sometimes further strengthened through partnerships (senseFly Solar 360 with Raptor Maps in May, photogrammetry solution with Agisoft in July). This commercial strategy is expected to be ramped up over the second half of the year, looking to expand the client base and conquer key accounts on international markets.

[1] Readers can also refer to the press release concerning 2019 first-quarter revenues published on May 17, 2019.
[2] https://www.sensefly.com/2019/04/04/les-statistiques-enregistrees-sur-les-drones-confirment-que-lebee-de-sensefly-est-le-plus-populaire-des-drones-voilure-fixe-commercialises-en-france/ and https://www.sensefly.com/2019/04/03/registration-figures-confirm-sensefly-ebee-most-popular/

Pix4D's sales of drone imaging analysis software are up 16% to €10.7m. This robust commercial performance is being driven by the continued development of its flagship product, Pix4DMapper, and the ramping up of its dedicated solutions for construction (Pix4DBim) and agriculture (Pix4Dfields). It is also working to facilitate the digitalization of the sectors that it serves by improving the integration of data processed by its software into existing tools and solutions, in addition to developing end-to-end solutions.

Micasense develops and markets data sensors used in the drone-based precision farming sector. Based on America's West Coast, it generated €4.3m of revenues (+82%) over the first half of this year. Its continued progress is being supported by the success of its latest sensor, Altum, launched at the end of 2018, as well as ongoing efforts to facilitate the integration of its technologies into the ecosystem of equipment and software used by farmers.

At the end of the first half of this year, it was decided to mothball Airinov, the French company specialized in drone-based agronomy services, whose acquisition had been finalized in July 2015 for a total of €10.1m. The subsidiary, which employed 16 staff at end-June, consumed around €7m of cash over the period from 2016 to 2018. Faced with the agricultural sector's slow pace of modernization and fragile economic situation, the opportunities that exist on this market, driven by ecological and societal changes, are covered by the other subsidiaries (senseFly, Pix4D and MicaSense). These offer more robust competitive advantages, thanks in particular to their technologies, as well as their ability to cover other sectors (mapping, surveying, inspection, surveillance) to balance their development model.

Developments for the Prosumer Drone business (42% of revenues, -52%)

Parrot has accelerated its realignment around the commercial drone market, which is continuing to grow. The breakdown of sales shows a stronger focus on the new generation of consumer and commercial drones developed thanks to the ANAFI platform (ANAFI, ANAFI Extended, ANAFI Works and ANAFI Thermal), notably helping reestablish the margins achieved, in line with the strategy and the current market context.

The measures rolled out since the end of 2018 to reduce the resources used by the production and marketing structures of the subsidiary Parrot Drones to adjust them in line with the consumer drone market's current capacity were finalized in the second quarter of 2019. The full benefits of these measures will be seen in the third quarter of 2019. The gradual normalization of the management balances is moving forward without undermining the capacity for innovation of the Group, which is developing an ambitious long-term roadmap aiming to serve increasingly specific use cases for consumers, professionals and key accounts.

At the start of May, Parrot was selected by the US Department of Defense to be part of the Short Range Reconnaissance (SRR) development program, launched in November 2018. This program has a total budget of $11m, awarded to six commercial drone companies. The aim is to provide a lightweight and discreet quadricopter offering American soldiers a rapidly deployable, easily transportable and high-tech reconnaissance capability. Its prototype, which is scheduled to be presented to the US Army at the start of 2020, will be subject to interim qualification stages between now and then.

Change in the Parrot Group's condensed income statement

The Group's **revenues** came to €39.7m for the first half of 2019 (see details appended). This compares with a first half of 2018 marked by the acceleration of stock clearances for the old product ranges (-54%) and the launch of the Parrot ANAFI. Following on from the strategic measures (reorganization, adjustments, savings) adopted since the end of 2018, revenues are up €3.8m, with +21% growth compared with the previous quarter. However, this level benefits from a reversal of provisions for the protection of distributor margins that are now obsolete following the change of commercial strategy for prosumer activities. These reversals represent €2.2m, with a positive impact on both revenues and management balances. Restated for this reversal of provisions, first-half revenues totaled €37.5m (-32%) and the Parrot Group's drone activities represent 92% of the Group's revenues, compared with 86% for the first half of 2018.

Following on from the product portfolio adjustments, the realignment of the commercial strategy and the ramping up of the dedicated offers and solutions for professionals, the consolidated **gross margin** for the first half of 2019 represents 63.6% of revenues. Excluding the reversal of provisions, the gross margin rate comes to 61.5% of restated revenues. A level that takes into account the ramping up of professional activities within the Group.

Current operating expenditure came to €38.3m for the first half of this year, compared with €51.1m for the same period in 2018. The decrease in costs concerns all items, excluding R&D (see details appended). As forecast at the end of 2018, the reduction in operating costs for Parrot Drones was ramped up throughout the half-year period to respond to current changes in sales of consumer drones. Other external expenses are down 41% for the period, with a 3% reduction in staff costs, pending the full impact of the reorganization. These costs include those for Airinov, which was mothballed at the start of June.

At June 30, 2019, the Group's **workforce** (permanent and fixed-term contracts) represented 585 people (641 at December 31, 2018), in addition to 35 external contractors (23 at December 31, 2018). The commercial drone subsidiaries have a total of 320 staff (328 at December 31, 2018), representing 55% of the Group's workforce. In line with the reorganization, Parrot Drones (prosumer drones) has 227 staff (268 at December 31, 2018) and Parrot SA has 38 (45 at December 31, 2018). The Parrot Group overall still has an outstanding European product development unit to maintain its advanced capacity for innovation, and it is moving forward with the continued adjustment of its resources and these needs in line with changes on the drone market.

Non-current expenditure represents -€0.2m for the first half of 2019, taking into account the external costs incurred to finalize the Group's internal and capital reorganization. The key developments for the period include the provisions recorded for restructuring and the writedowns of assets following the mothballing of Airinov, offset by the reversals of unused provisions linked to the 2017 restructuring plan and the progress made with the plan launched at the end of 2018.

Taking into account a non-significant level of financial income and expenses and a share of income from associates for -€0.3m, **consolidated net income (Group share)** represents -€13.8m, compared with -€32.1m for the first half of 2018.

Changes in the cash position and balance sheet at June 30, 2019

The changes in cash flow and the balance sheet highlight the effectiveness of the efforts made to adapt the organization to the drone market's pace of development. At June 30, net cash represents €137.2m.

Cash flow from operations came to -€16.0m over the first six months of the year, compared with -€67.2m in 2018. With the levels of financing cash flow (-€1.8m) and investing cash flow (-€0.7m) limited over the period, the net change in cash represents -€23.4m for the first half of the year, including a €4.7m reduction in working capital requirements. Pending an increase in production over the second half of 2019, inventories, trade payables and trade receivables are at a three-year low.

Based on the assumption for current business development and market environment trends to continue, Parrot is on track to achieve its full-year target for around €100m of net cash at the end of 2019.

Outlook for 2019 (recap)

Parrot has continued to adapt its Prosumer Drones activities in line with drone market developments, while achieving substantial savings, with this management policy to continue moving forward in 2019. Resources are focused on advanced R&D, ramping up the gateways between consumer and commercial uses, streamlined distribution networks, managed primarily from France, and targeting online sales in priority, as well as opportunistic marketing operations, linked to trends on the various regional markets.

The Commercial Drones and Solutions activities are forecasting double-digit growth, , with earnings expected to be close to breaking even by the end of the year. Supported by a diversified offering, developed specifically for the various target industries (precision farming, 3D mapping, geomatics, inspection and security), their development is still dependent on the increased penetration of the new technologies offered by drones, while the pace of adoption is difficult to forecast.

Over 2019, the expectations will be reflected in:

- A significant contraction for the Prosumer Drones activities, in a consumer drone market that is expected to be flat, with commercial uses to slowly ramp up, while increasingly widespread use among smaller businesses is still being held back by the regulatory environment. The actions taken are expected to reduce the annual loss to a sustainable level to continue responding to the market's long-term potential.
- Stronger growth for the Commercial Drones and Solutions activities, consolidated by their solid offers in a still buoyant market, within which the development of drone technologies for business clients and key accounts is being restricted less by the regulatory framework.

Based on these elements, Parrot is expected to have around €100m of net cash at the end of 2019.

Next financial dates

- 2019 third-quarter revenues: November 15th, 2019, before start of trading.

ABOUT PARROT

Founded in 1994 by Henri Seydoux, Parrot is today the leading European group in the fast-growing industry of drones. Visionary, at the forefront of innovation, Parrot is the only group to be positioned across the entire value chain, from equipment to services and software.

- Parrot, the world's number 2 of the consumer drone market, designs drones known for their high performance and ease of use.
- Parrot has a portfolio of outstanding companies and interests in commercial drones, covering equipment, software and services. Its expert capabilities are focused primarily on three vertical markets: (i) Agriculture, (ii) 3D Mapping, Surveying and Inspection, and (iii) Defense and Security.

The Parrot Group designs and engineers its products in Europe, mainly in France and Switzerland. It currently employs over 600 people worldwide and makes the majority of its sales outside of France. Parrot, headquartered in Paris, has been listed since 2006 on Euronext Paris (FR0004038263 - PARRO). For more information: www.parrot.com

CONTACTS

Investors, analysts, financial media	Consumer and tech media
Marie Calleux - T. : +33(0) 1 48 03 60 60	Fabien Laxague - T. : +33(0) 1 48 03 60 60
parrot@calyptus.net	fabien.laxague@parrot.com

APPENDICES

The accounts for the first half of the year were approved by the Board of Directors on July 30, 2019. The statutory auditors' report on the half-year financial information will be issued shortly.

IFRS 16: *The Parrot S.A. Group has applied IFRS 16 "Leases" since January 1, 2019, with this standard requiring companies to recognize long-term lease commitments on the balance sheet. The Group has chosen to apply this standard based on the simplified retrospective method in accordance with IFRS 16. With this approach, the comparative information presented is not restated. The Group has chosen to use the three exemptions from capitalization available with this standard for the following leases:*

- *Leases for 12 months or less;*
- *Leases for assets with an individual new value of less than €5,000.*
- *The leases, as defined by IFRS 16 "Leases", are recorded on the balance sheet, with the recognition of:*
- *A liability for the payment obligation;*
- *An asset, which corresponds to the right to use the leased asset for the duration of the lease.*

On the half-year reporting date, the amount of the liability is valued at €10.6m. On the income statement, the right of use recorded for the half year represents €1.5m, with a financial expense of €0.1m.

Changes in scope: *Two changes were recorded during the first half of 2019:*

- *The liquidation of the company EOS was announced in February 2019. All of the assets had been written down in 2016.*
- *The decision was taken in June 2019 to shut down Airinov's business. €1.3m of asset writedowns and provisions for collective economic redundancies were recorded at the end of June 2019.*

Readers are also reminded that the company Parrot Air Support was put on standby in the fourth quarter of 2018.

Point for consideration: *The accounts for the period are also marked by a €2.2m reversal of provisions that had become obsolete following the change in the commercial strategy. This reversal is reflected in a positive impact on revenues, as well as all the other management balances.*

BREAKDOWN OF REVENUES BY BUSINESS UNIT AND BUSINESS LINE

€m and % of revenues	Q1 2019		Q2 2019		H1 2019		H1 2018		Change
Pix4D (software)	5.2	29%	5.5	25%	10.7	27%	9.2	17%	16%
senseFly (drones and sensors)	4.6	26%	3.5	16%	8.1	20%	7.6	14%	7%
MicaSense (sensors and services)	1.8	10%	2.5	11%	4.3	11%	2.3	4%	87%
Airinov (services)	0.2	1%	0.5	2%	0.7	2%	1.3	2%	-46%
Commercial Drones & Solutions total	**11.8**	**66%**	**12**	**55%**	**23.7**	**60%**	**20.4**	**37%**	**16%**
Parrot Drones	**6.8**	**38%**	**9.8**	**45%**	**16.6**	**42%**	**34.9**	**63%**	**-52%**
Consumer or commercial drones (prosumer drones)	5.7	32%	7.3	33%	13.0	33%	27.1	49%	-52%
Other legacy consumer products	1.2	7%	2.5	12%	3.6	9%	7.8	14%	-54%
Parrot SA	**0.3**	**2%**	**0.4**	**2%**	**0.7**	**2%**	**0.8**	**1%**	**-13%**
Intragroup eliminations	-1	-6%	-0.4	-2%	-1.3	3%	1.5	3%	-13%
PARROT GROUP TOTAL	**17.9**		**21.8**		**39.7**		**55.0**		**-28%**
DRONE TOTAL	**16.5**	**92%**	**19.3**	**89%**	**36.1**	**91%**	**47.2**	**86%**	**-24%**

CONSOLIDATED INCOME STATEMENT

IFRS in €m and % of revenues	H1 2019	H1 2018
Revenues	**39.7**	**55.0**
Cost of sales	-14.4	-31.8
Gross margin	**25.2**	**23.2**
% of revenues	*63.6%*	*42.1%*
R&D costs	**-17.1**	**-19.0**
% of revenues	*-43.1%*	*-34.5%*
Sales and marketing costs	**-11.1**	**17.7**
% of revenues	*-28.0%*	*-32.1%*
Administrative costs and overheads	**-6.6**	**-9.6**
% of revenues	*-16.6%*	*-17.5%*
Production and quality costs	**-3.4**	**-4.8**
% of revenues	*-8.6%*	*-8.8%*
Income from ordinary operations	**-13.0**	**-27.9**
% of revenues	*-32.7%*	*-50.8%*
Other operating income and expenses	**-0.2**	**2.0**
EBIT	**-13.2**	**-26.0**
% of revenues	*-33.2%*	*-47.2%*
Financial income and expenses	**0.0**	**-0.2**
Share in income from associates	-0.3	-5.5

Corporate income tax	-0.2	-0.1
Net income	**-13.7**	**-31.8**
Minority interests	-0.1	0.3
Net income (Group share)	**-13.8**	**-32.1**
% of revenues	*-34.9%*	*-58.4%*

CONSOLIDATED BALANCE SHEET

ASSETS - IFRS, €m	**June 30, 2019**	**December 31, 2018**
Non-current assets	**23.4**	**15.0**
Goodwill	-	-
Other intangible assets	0.1	0.9
Property, plant and equipment	2.8	3.4
Financial assets	4.5	4.4
Investments in associates	5.5	6.1
Deferred tax assets	0.2	0.2
Non-current lease receivables	1.6	NA
Right of use	8.7	NA
Current assets	**189.3**	**229.3**
Inventories	15.5	19.4
Trade receivables	14.8	27.6
Other receivables	20.2	20.7
Current lease receivables	0.3	NA
Other current financial assets	0	0.0
Cash and cash equivalents	138.5	161.5
TOTAL ASSETS	**212.7**	**244.3**
Shareholders’ equity		
Share capital	4.6	4.6
Additional paid-in capital	331.7	331.7
Reserves excluding earnings for the period	-176.5	-66.4
Earnings for the period - Group share	-13.8	-111.3
Exchange gains or losses	5.5	5.9
Equity attributable to shareholders	**151.5**	**164.5**
Minority interests	-1.6	-1.6
Non-current liabilities	**17.4**	**8.6**
Non-current financial liabilities	1.3	1.3
Non-current lease liabilities	8.8	NA
Provisions for pensions and other employee benefits	0.9	0.9
Deferred tax liabilities	0.1	0.1
Other non-current provisions	0.1	-
Other non-current liabilities	6.3	6.3
Current liabilities	**45.4**	**72.8**
Current financial liabilities	-	-
Current lease liabilities	1.8	NA
Current provisions	9.8	17.3
Trade payables	15.5	27.6
Current tax liabilities	0.0	0.1
Other current liabilities	18.1	27.8
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**212.7**	**244.3**

CASH-FLOW STATEMENT

IFRS (€m)	June 30, 2019	December 31, 2018
Operating cash flow		
Earnings for the period from continuing operations	-13.8	-111.2
Share in income from associates	0.4	7.9
Depreciation and amortization	-4.7	50.4
Capital gains and losses on disposals	0.9	-15.0
Tax expense	0.3	-0.9
Cost of share-based payments	0.8	1.5
Net finance costs	0.1	ns
Cash flow from operations before net finance costs and tax	**-16.0**	**-67.2**
Change in working capital requirements	-4.7	5.5
Tax paid	-0.2	-0.8
Cash flow from operating activities (A)	**-20.8**	**-62.6**
Investing cash flow		
Interest received	-	-
Acquisition of property. plant and equipment and intangible assets	-0.8	-4.2
Acquisition of subsidiaries. net of cash acquired	-	-0.7
Acquisition of long-term financial investments	-0.1	-0.4
Increase in other current financial assets	-	-
Disposal of property, plant and equipment and intangible assets	0.1	ns
Disposal of investments in associates	-	67.5
Disposal of subsidiaries, net of cash divested	-	2.7
Disposal of long-term financial investments	0.2	0.05
Cash flow from investment activities (B)	**-0.7**	**54.9**
Financing cash flow		
Equity contributions	-	-
Dividends paid	-	-
Receipts linked to new loans	ns	0.1
Cash invested for over 3 months	ns	13.0
Net finance costs	-0.1	ns
Exchange hedging instruments	-	-
Repayment of short-term financial debt (net)	-1.7	-
Repayment of other debt	-	-
Sales / (Purchases) of treasury stock [4]	ns	ns
Interest paid	-	-
Cash flow from financing activities (C)	**-1.8**	**13.0**
Net change in cash position (D = A+B+C)	**-23.4**	**15.4**
Net foreign exchange gain / loss	0.4	1.5
Cash and cash equivalents at start of period	**161.5**	**144.5**
Cash and cash equivalents at end of period	**138.5**	**161.5**

***