Parrot

PRESS RELEASE
Paris, May 13, 2016 – 8 am

2016 first-quarter earnings

Condensed consolidated accounts (1) IFRS (€M)	Q1 2016	Q1 2016 restated (3)	Q4 2015	Q1 2015
Revenues	**33.1**	**49.4**	**108.2**	**71.0**
- Drones	2.4	18.7	74.0	34.6
- Automotive	25.2	25.2	29.1	31.9
- Connected Devices	4.7	4.7	4.4	4.2
- Other	0.7	0.7	0.7	0.3
Gross margin	**4.1**	**18.5**	**50.4**	**31.7**
% of revenues	*12.4%*	*37.6%*	*46.9%*	*44.6%*
EBITDA	**-36.1**	**-21.7**	**12.1**	**0.5**
EBIT	**-40.3**	**-25.9**	**5.1**	**-4.4**
% of revenues	*NS*	*-52.4%*	*4.7%*	*-6.2%*
Net income (Group share)	**-39.1**	**-**	**4.6**	**-5.1**
% of revenues	*NS*	-	*4.3%*	*-7.2%*
Net income	**-40.1**	**-**	**4.5**	**-4.7**
		-		
Earnings per share (2)	**-1.31**	**-**	**0.35**	**-0.38**
Diluted earnings per share	-1.31	**-**	0.35	**-0.38**
		-		
Net cash	**296.7**	**-**	**331.7**	**66.0**

(1) Consolidated earnings include Airinov from July 1, 2015 and MicaSense from October 1, 2015.
(2) Accounting number of shares (weighted average) at March 31, 2016: 29,780,961.
(3) Non-recurring items recognized against revenues: protection of retailer prices (5.0 million euros), couponing (1.7 million euros), exceptional returns (9.5 million euros); unquantified non-recurring items: reduction in the sell-in (sales to retailers) to promote sell-through (sales from retailers to end customers).
Non-recurring items recorded in the gross margin and EBIT: protection of retailer stocks (5.0 million euros), couponing (1.7 million euros), exceptional returns (4.8 million euros), provisions on stocks (2.9 million euros).

Earnings for the period are exceptional and temporarily affected by the new organization rolled out, made possible by the capital increase, in order to effectively capitalize on the major opportunities on the drone market.

Consolidated revenues for the first quarter came to 33.1 million euros (non-significant foreign exchange impact). Adjusted for non-recurring items, first-quarter revenues represent 49.4 million euros. This reflects the new distribution strategy announced in February 2016, in addition to the Group's plans to quickly take action, based around building a clear, streamlined product range, aligned with the short sales cycles for consumer drones and effectively covering new regional markets.

EBIT came to -40.3 million euros, with -25.9 million euros adjusted for non-recurring items. It reflects the acceleration in spending, as announced at the end of 2015, and the new sales and marketing strategy rolled out.

As Henri Seydoux, Parrot's chairman, CEO and founder, explains: "*Of course, these results do not reflect our ambitions for growth in 2016. However, they are explained by the deployment of the new organization for our commercial strategy and the many actions rolled out to structure our Group and support its development. This involves an in-depth optimization of our methods, alongside the extensive recruitment drive underway in France and internationally, to support our capacity for innovation, our development and our originality. This stage is essential for building a leading position on the civil drone market. We are looking ahead to the future, and particularly the launches of our drones and connected devices in the second half of the year, with better capabilities in place to conquer our markets. We are also resuming our operations to buy back Parrot shares*".

Highlights for the period

Consumer drones: Parrot is focusing on the launches planned for the second half of the year, with a streamlined range of products, centered around innovation, differentiation and quality in order to establish its brand identity and competitiveness. This portfolio, with sales processes that are gradually being aligned with the standards of leading retail high-tech firms, will also be able to benefit from further growth in the number of points of sale, as well as the significant increase in online sales, the stronger sales force deployed and, lastly, the optimization of its marketing strategy, tailored to each channel, country and customer segment.

In this context, the implementation of the new organization must make it possible to reduce retailer stocks, followed by a streamlining of the Group's stocks. To quickly achieve its goals and consolidate its relationships with its customers in an increasingly competitive environment, the Group has carried out exceptional (non-contractual) product returns (7.7 million euro impact on earnings for the quarter); these products are being sold through adapted channels from the second quarter. In addition, Parrot has launched an exceptional campaign to reduce prices (retailers and end customers, 6.7 million euro impact), which is currently being deployed in the countries concerned.

Commercial drones: The subsidiaries are rolling out a strategy for strong growth through verticalization on the priority markets (mapping, precision farming and inspection), while ramping up their international development. Over the period, equipment sales were held back by the commercial policy changes introduced in February and the future adoption of definitive legislation for the use of commercial drones in the United States. Sales of software and services are being driven by (i) the success of the mapping software solutions and their various versions to cover diverse needs, from key accounts to self-employed professionals, (ii) the new software released for precision farming to accompany the Sequoia sensor, with orders starting up at the end of the period, and (iii) the rapid progress made with dedicated services for the precision farming market, with new subsidiaries opened in the UK, Netherlands and Denmark.

In line with its growth strategy for commercial drones and the identification of outstanding technological firms, Parrot has made three minority investments (recorded under long-term financial investments) in the following companies:

- 13.6% of BioCarbon Engineering Ltd., a UK company that is developing a drone-based reforestation solution.
- 23.2% of Planck Aerosystems Inc, a US company that is developing drone-based surveillance solutions for the Navy.
- 20.0% of Nano Racing S.A.S., a French company that is developing a small-scale immersion-piloted racing drone.

Automotive: The automotive business development plan is still in line with the Group's expectations. A new contract has been signed with a Chinese manufacturer, confirming the target for growth to resume in 2017. The change in sales and earnings must be assessed on an annual basis.

Earnings

The consolidated **gross margin** for the period represents 12.4% of revenues, in line with the commercial actions for consumer drones. The contraction reflects the geographical redistribution of products, generating returns over the period, before being sold again over the rest of the year. Restated for these impacts, the gross margin comes out at 18.5 million euros, representing 37.6% of revenues for the period.

R&D spending came to 16.7 million euros, compared with 14.8 million euros for the first quarter of 2015. R&D is focused on (i) the finalization of a selection of original and innovative consumer products to be launched in the second half of the year, and (ii) the verticalization of commercial drone technologies, solutions and services for each business (mapping, precision farming and surveillance). The recruitments underway will aim to take the Group's R&D teams up to at least 650 people (versus 516 at March 31, 2016), making it possible to sustainably accelerate the pace of product launches and the capacity for innovation on consumer and commercial drones.

Sales and marketing spending came to 15.6 million euros, compared with 12.6 million euros for the first quarter of 2015. This increase primarily reflects the recruitments underway, which will enable the Sales and Marketing teams to be expanded to 333 staff (versus 232 at March 31, 2016), while the campaigns to finalize the stock optimization phase are currently starting up.

Production and quality spending came to 4.2 million euros, compared with 3.7 million euros for the first quarter of 2015. Spending levels are in line with the Group's requirements and have been only slightly affected by the separation of the Automotive and Drone electronic manufacturing suppliers (EMS) announced at the start of the year. The expected benefits include accelerating production capacities for consumer drones and ensuring better financial conditions, which will offset the costs involved from the second half of the year.

Administrative costs and overheads represent 7.9 million euros, compared with 4.5 million euros for the first quarter of 2015. The Group's shared services teams (115 staff at March 31, 2016) and the temporary legal costs incurred are logically supporting the drive to structure and ensure the international development of commercial drone activities.

At March 31, 2016, the Group's **workforce** represented 1,137 people, compared with 1,046 at December 31, 2015, including 113 external contractors (versus 88 at December 31, 2015) who temporarily cover any additional areas of expertise required, primarily technological.

EBIT came to -40.3 million euros (-25.9 million euros restated), with 44.4 million euros of total costs for the period. **Financial income and expenses** came to -1.1 million euros, while the tax expense represents +1.4 million euros. **Net income** (Group share) came to -39.1 million euros, with minority interests, i.e. the investments in commercial and civil drone startups, representing -1.0 million euros.

Cash flow and balance sheet

At December 31, 2015, Parrot had 296.7 million euros in net cash, while the Group's shareholders' equity represented 385.4 million euros. Cash consumption for the period came to 35.0 million euros, including 2.0 million euros for the acquisitions in the commercial drone sector.

The balance sheet items are not representative of normal business conditions and reflect the progress made with the strategic actions. Net inventories represent 80.6 million euros, compared with 68.4 million euros at end-December 2015, with this increase linked to the exceptional returns policy introduced during the quarter. After focusing on optimizing its distribution channels, Parrot has launched various marketing actions with a view to reducing its own stock levels from the second quarter. This trend is clearly reflected in trade receivables, with 27.3 million euros, versus 85 million euros at end-2015, and trade payables, with 48.1 million euros, versus 84.5 million euros at end-2015. The change in working capital requirements represents 7.8 million euros.

Outlook

The key strategies for 2016 were presented in the press release from February 29, 2016 on 2015 fourth-quarter earnings, which is notably available on our website.

For this **second quarter**, Parrot is forecasting:

- A gradual upturn in its commercial development, supported by the marketing actions underway, and an improvement in its gross margin rate, which will continue to be affected by the stock clearance operations being carried out;
- A continued acceleration of its capacities for innovation with a view to achieving product launches in the third quarter, and their success will be key to achieving the full-year growth targets;
- A ramping up of marketing actions aiming, on the one hand, to finalize the optimization of sales processes, and on the other hand, to maximize the effectiveness of the campaigns that will support the launches planned for the second half of the year;
- The payment for the remaining 41.81% of its Swiss commercial drone subsidiary for around 29 million euros.

Parrot will also resume operations to **buy back its own shares**, for an initial amount of two million euros.

Next financial dates

- **May 24**: TECH40 Investor Forum in Frankfurt
- **June 16:** annual general meeting of Parrot's shareholders
- **July 29:** 2016 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 leisure quadricopters 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 in audio and gardening.

Headquartered in Paris, Parrot currently employs more than 900 people worldwide and generates the majority of its sales overseas. Parrot has been listed on Euronext Paris since 2006. (FR0004038263 – PARRO). For more information, please visit www.parrot.com

CONTACTS

Investors, analysts, financial media
Marie Calleux - T.: +33(0) 1 48 03 60 60
parrot@calyptus.net

Tech and consumer media
Vanessa Loury - T.: +33(0) 1 48 03 60 60
vanessa.loury@parrot.com

APPENDICES

The consolidated accounts:

- *were approved by the Board of Directors on May 12, 2016,*
- *include, on a fully consolidated basis, Airinov since July 1, 2015 and MicaSense since October 1, 2015.*

Breakdown of revenues by business

Consolidated accounts - IFRS (€M and % of Group revenues)	Q1 2016		Q4 2015		Q1 2015	
Drones	**2.4**	**7%**	**74.0**	**68%**	**34.6**	**49%**
Consumer	-3.2	ns	65.0	60%	28.6	40%
Commercial – hardware	2.6	8%	6.4	6%	4.9	7%
Commercial – software and services	3.1	9%	2.6	2%	1.0	1%
Connected Devices	**4.7**	**14%**	**4.4**	**4%**	**4.2**	**5%**
Audio	4.4	13%	4.2	4%	3.9	4%
Other connected devices	0.3	1%	0.2	ns	0.3	1%
Automotive	**25.2**	**76%**	**29.1**	**27%**	**31.9**	**45%**
Aftermarket (Retail)	8.1	24%	9.5	9%	11.1	16%
OEM (Key Accounts)	17.1	52%	19.6	18%	20.8	29%
Other	**0.7**	**2%**	**0.7**	**1%**	**0.3**	**ns**
Group total	**33.1**	**100%**	**108.2**	**100%**	**71.0**	**100%**

Key aggregates for each business

Consolidated accounts - IFRS (€M)	Drones	Connected Devices	Automotive	Other
Q1 2016				
Revenues	**2.4**	**4.7**	**25.2**	**0.7**
Income from ordinary operations	**-37.4**	**-3.1**	**0.5**	**-0.2**
% of revenues	*ns*	*-67%*	*2%*	*-28%*
Q4 2015				
Revenues	**74.0**	**4.4**	**29.1**	**0.7**
Income from ordinary operations	**2.9**	**-2.9**	**3.7**	**-0.4**
% of revenues	*4%*	*-66%*	*13%*	*-61%*
Q1 2015				
Revenues	**34.6**	**4.2**	**31.9**	**0.3**
Income from ordinary operations	**-3.2**	**-1.8**	**2.2**	**-0.9**
% of revenues	*-9%*	*-44%*	*7%*	*-317%*

Income statement

Consolidated accounts - IFRS (€M)	Q1 2016	Q4 2015	Q1 2015
Revenues	**33.1**	**108.2**	**71.0**
Gross margin	**4.1**	**50.4**	**31.7**
% of revenues	*12.4%*	*46.6%*	*44.6%*
R&D costs	**-16.7**	**-13.9**	**-14.8**
% of revenues	*-50.7%*	*-12.9%*	*-20.9%*
Sales and marketing costs	**-15.6**	**-22.9**	**-12.6**
% of revenues	*-47.2%*	*-21.1%*	*-17.8%*
Administrative costs and overheads	**-7.9**	**-5.2**	**-4.5**
% of revenues	*-23.8%*	*-4.8%*	*-6.3%*
Production and quality costs	**-4.2**	**-5.2**	**-3.7**
% of revenues	*-12.7%*	*-4.8%*	*-5.2%*
Income from ordinary operations	**-40.3**	**3.3**	**-4.0**
% of revenues	*-122.0%*	*3.1%*	*-5.6%*
EBIT	**-40.3**	**5.1**	**-4.4**
% of revenues	*-121.8%*	*4.7%*	*-6.2%*
Financial income / expense	**-1.1**	**0.7**	**0.7**
Corporate income tax	1.4	-0.2	-1.0
Income from associates	-0.1	-	-
Net income	**-40.1**	**4.5**	**-4.7**
Minority interests	-1.0	0.1	0.4
Net income (Group share)	**-39.1**	**4.6**	**-5.1**
% of revenues	*-118.3%*	*4.1%*	*-7.2%*