Parrot

PRESS RELEASE
Paris, August 2, 2018 - 7am CET

2018 second-quarter business and earnings

- **Launch of Parrot Anafi, a new 4K ultralight drone**
- **14% second-quarter growth for the drone business**
- **Finalization of several sales projects to create Europe's first pure player for consumer and commercial civil drones**
- **Full-year objectives reaffirmed: achieving drone business growth, improving the gross margin and reducing cash consumption**

Henri Seydoux, Parrot's Chairman, CEO and leading shareholder: *"In June, we launched the Parrot ANAFI drone: with its 3-axis stabilized 4K camera, able to take photos over 180 degrees, lossless zoom, 25-minute flight time and weight of just 320 grams, the Parrot ANAFI is the lightest and best-performing drone in its class; it has been widely acknowledged as such by the media, influencers and its first customers. Its distribution is being gradually put in place and will be fully deployed for the strong seasonality of sales over the end-of-year period.*
With Parrot ANAFI, we have a scalable technological platform whose image quality and flight performance capabilities are proving very popular. Combined with our complementary equipment and software solutions, this open and secure platform is powerful enough to meet the precision data needs of professionals. Its first launches will follow over the next few months on our target markets, focused on mapping, precision farming and security. The success of this new innovation phase that we have just embarked on is key. It must help drive growth for both our consumer and our commercial business lines. I firmly believe that while the risk is high, there is a major opportunity to secure the sustainable development of Europe's leading drone group.
Following our announcement at the start of July that we plan to withdraw from our OEM Automotive business ahead of schedule in favor of Faurecia, we are finalizing our transformation to become a genuine pure player for civil drones and we will be able to benefit from a stronger cash position".

2018 second-quarter earnings

IFRS 15 "Revenue from Contracts with Customers" came into force on January 1, 2018. The reclassification of certain marketing costs as a deduction against revenues, whereas they were previously classed as operating expenses, represents the only impact of the application of IFRS 15.
The accounts for the first half of the year were approved by the Board of Directors on July 31, 2018. The statutory auditors' report on the half-year financial information was drawn up on August 1, 2018.

- **Breakdown of revenues:**

IFRS, €m *(details appended)*	**Q2 2018**	**Q2 2017**	**Change**
- Consumer drones	**18.8**	**15.2**	**+24%**
- Business solutions	**11.9**	**11.7**	**+2%**
DRONE TOTAL (1)	**30.6**	**26.9**	**+14%**
- Other consumer products	2.2	8.2	-73%
GROUP TOTAL	**32.9**	**35.1**	**-6%**

(1) Revenues for Parrot Professional and Sequoia are presented under "Business Solutions" to reflect internal organization changes. In 2017, they were not particularly significant and were presented under "Consumer Drones", in line with the internal organization at the time.

Consumer drones (57% of Q2 2018 revenues)

Revenues show a first return to growth (+23% versus Q2 2017 and +171% versus Q1 2018), with an initial contribution by the Parrot Anafi, which has started to be rolled out in stores since early July. Over the period (March to June), the commercial performance achieved mainly reflects the acceleration in sales for the older generations of drones, and particularly the Bebop 2, driven by the pricing adjustment (from €599 to €399 on average in Europe), with an effectively controlled impact on margins, making it possible to prepare for the Parrot Anafi's release, while ensuring the effective management of inventory levels.

Drone business solutions (36% of Q2 2018 revenues)

Following on from the first quarter, the commercial performance (+2% versus Q2 2017) for Drone Business Solutions reflects the impact of the contraction in business equipment sales (-13% versus Q2 2017, +18% versus Q1 2018) while waiting for the next generations of drones to be deployed over the second half of the year. The slowdown in sales growth for software and services (+17% versus Q2 2017 and Q1 2018) factors in the bad weather conditions seen this spring (limiting the use of drones and therefore related software and services). In terms of the vertical markets covered, this impact can be seen in particular for precision farming, while the new activities providing expert services for professionals (architects, surveyors, construction project managers, etc.) and industrial firms (infrastructure, energy, real estate, etc.) are ramping up thanks to the calibration of the range in 2017 to take on board the expectations of still young end-markets, looking for expertise and turnkey solutions.

Other consumer products (7% of Q2 2018 revenues)

The contraction in this historical business (retail automotive handsfree kits) is in line with the strategy to realign the business around consumer and commercial civil drones. More specifically, the basis for comparison reflects the end of sales for connected devices in the first quarter of 2018, which were still included in sales for 2017. For this quarter, excluding the €6.1m drop in revenues from other consumer products, the Drone business, which now represents 93% of the Group's revenues, shows 14% growth.

- **Condensed income statement**

IFRS in €m and % of revenues	Q2 2018(1)	Q2 2017(1)	Change
Revenues	**32.9**	**35.1**	-6%
Gross margin	**12.4**	**15.8**	-22%
% of revenues	*37.7%*	*45.0%*	
Income from ordinary operations	**-13.2**	**-11.3**	-17%
% of revenues	*-40.2%*	*-32.3%*	
EBIT(2)	**-11.2**	**-53.2**	+79%
% of revenues	*-34.1%*	*-151.7%*	
Net income (Group share)	**-13.1**	**-8.9**	+47%
% of revenues	*-40.0%*	*-25.4%*	

(1) With the application of IFRS 15 from January 1, 2018, certain marketing costs previously recognized as operating costs have been restated and reclassified as a deduction against revenues. The impact for Q2 2018 represents -€0.9m in terms of revenues and the gross margin.
(2) For H1 2017, the non-recurring items include the capital gain following the Parrot Automotive / Faurecia disposal operation and the non-recurring expenses linked to the Group's restructuring: details appended.

The consolidated **gross margin** for the second quarter represents 38% of revenues, in line with the Group's commercial strategy and pricing elasticity policy. Illustrating this, Parrot has supported the clearance of Bebop 2 stocks, partially offset by the good levels of margins on Drone Business Solutions, while waiting for Parrot Anafi's sales to ramp up.

Current operating expenditure for the second quarter came to €25.6m, down -5% (-€1.4m) from the second quarter of 2017. R&D spending came to €9.5m (stable versus Q1 2018), focused on finalizing the next generations of consumer drones and business solutions. Sales and marketing spending represents €9.8m (versus €7.9m for Q1 2018) and reflects the resources deployed for the Parrot Anafi's launch and promotional actions on the Bebop 2. Operating expenditure levels (Administrative & Overheads, Production & Quality) are normalizing in line with the Group's expectations.

Over the period, **other operating income**, with €2.0m, is linked to the €2.2m capital gain recorded following the sale of a subsidiary, the last with a business focused on "connected devices" projects.

At June 30, 2018, the Group's **workforce** (permanent and fixed-term contracts) represented 665 people (637 at March 31, 2018), in addition to 50 external contractors (45 at March 31, 2018). The Group has 330 staff for commercial drones (309 at March 31, 2018) and 287 for consumer drones (278 at March 31, 2018). The ramping up of synergies in various entities focused on Drone Business Solutions during the next quarter will limit the increase in staffing levels over the year.

Cash flow and balance sheet at June 30, 2018

Net cash (including current and non-current financial assets and liabilities) represents €86.9m at end-June 2018 (versus €115.4m at December 31, 2017), with the following breakdown: €119.1m of cash and cash equivalents (€144.5m at December 31, 2017), €10.0m of short-term investments and €41.0m of current financial liabilities, linked primarily to the proposed early conversion of the convertible bonds issued in connection with the Parrot Faurecia Automotive operation.

The net change in the cash position over the first half of 2018 represents -€26.4m, primarily including -€25.0m in EBITDA, a limited change in working capital requirements for -€1.8m, pending the full impact of the launches and seasonality, and the impact of exchange rate fluctuations for +€0.9m.

In terms of the financial statements, the signing of the memorandum of understanding for negotiations concerning Parrot Faurecia Automotive is reflected in the presentation of investments in associates under discontinued operations on the one hand, and on the other hand the presentation of the €41m of bond liabilities under current liabilities. In connection with the proposed plan, the capital gain from the sale would be recorded in the second half of 2018.

Parrot's shareholders' equity represents €231.0m (€253.8m at December 31, 2017), with a total balance sheet of €358.8m (€402.7m at December 31, 2017). Net inventories are down to a low of €18.0m (versus €23.3m at December 31, 2017), with sales of older products (drones and retail) provisionally offsetting the impact of the next generations of drones starting up. Following a low at end-March, trade receivables are up €9m, to €33.7m, in line with the promotional operations rolled out and the Parrot Anafi's very first deliveries.

Event after the reporting period

On July 4, 2018[1], a memorandum of understanding for negotiations was signed between Faurecia and Parrot concerning Parrot's possible early exit from Parrot Faurecia Automotive, changing the conditions from the agreement dated March 31, 2017.

Within this framework, the conversion date for the convertible bonds would be changed (the conditions would remain unchanged, i.e. €41m giving access to 50.01% of Parrot Faurecia Automotive's capital). The cash price payable for the remaining 49.99% held by Parrot following the conversion of the convertible bonds would be €67.5m, taking the total amount received by Parrot up to €108.5m. In addition, Parrot Faurecia Automotive would continue to benefit from the "Parrot" brand license until the end of the agreed timeframe, in return for royalties based on Parrot Automotive's revenues.

In accordance with IFRS 5, the corresponding assets and liabilities have been isolated on dedicated lines at June 30, 2018. These assets are presented separately from the other assets or groups of assets under "assets held for sale" on the consolidated balance sheet and are measured at the lower of their book value or their resale value net of costs.

This proposal will be submitted to the Parrot Group's employee representatives for information and consultation. If it moves forward, it will be carried out in autumn 2018, subject to obtaining the necessary regulatory approvals. It would enable Parrot Automotive to benefit from being fully integrated within a world leader for automotive equipment and effectively capitalize on its advanced technological positioning for automotive connectivity and mobility. For Parrot, it will further strengthen its financial position and operational focus to continue moving forward with its development of Europe's leading drone group, now focused exclusively on the civil drone market and able to offer a range of equipment, software and services covering the needs of consumers, small businesses and key accounts.

Outlook for 2018

On a market that is seeing the emergence of a new industry with global strategic and economic stakes, Parrot is the leading European drone group.

At the heart of this 21st century technological and industrial revolution, Parrot believes that it has the resources and assets needed to develop its leadership, with strong capabilities to respond to the new needs expressed by consumers in the image age, as well as industries and businesses in the data age.

The Group is able to count on dedicated and motivated teams, combined with optimized operations, to help drive the expansion of the market, whose competitiveness is in line with the stakes involved. For 2018, Parrot is reaffirming its target for revenue growth on drones (consumer and business solutions), while improving its gross margin and reducing its cash consumption, laying the foundations for a new effectively managed acceleration phase in 2019.

Next financial dates

- 2018 third-quarter earnings: November 23, 2018, 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 a real 'End to End' drone group from hardware and software to services.

- Parrot, the world's number 2 of the consumer drone market, designs drones known for their high performance and ease of use.
- Parrot is also offering business solutions, covering drones, software and services mainly focusing on 3 major verticals: (i) Agriculture, (ii) 3D Mapping, Surveying and Inspection and (iii) Public safety.

The Parrot Group designs and engineers its products in Europe, mainly in France and Switzerland. It currently employs 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

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(1) See press release from July 6, 2018, available online at: https://corporate.parrot.com/en/pressrelease/proposedearlyexitfromparrotautomotive

APPENDICES

IFRS 15 "Revenue from Contracts with Customers" came into force on January 1, 2018. The reclassification of certain marketing costs as a deduction against revenues, whereas they were previously classed as operating expenses, represents the only impact of the application of IFRS 15.
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Breakdown of revenues by business

Consolidated accounts - IFRS (€m and % of Group revenues)	**Q2 2018**		**Q2 2017**		**H1 2018**		**H1 2017**	
Consumer drones and products	**20.9**	***63%***	**23.2**	***66%***	**32.9**	***60%***	**42.1**	***66%***
- Consumer drones [1]	18.8	*57%*	15.2	*43%*	**25.7**	***47%***	27.4	*43%*
- Other consumer products [2]	2.2	*7%*	7.9	*23%*	**7.4**	***13%***	14.7	*23%*
Drone Business Solutions	**11.9**	***36%***	**11.7**	***33%***	**21.9**	***40%***	**21.3**	***34%***
- Business equipment[1]	*5.2*	*16%*	6.0	*17%*	*9.4*	*17%*	11.2	*18%*
- Business software and services	*6.7*	*20%*	5.7	*16%*	*12.4*	*23%*	10.1	*16%*
Parrot Group total	**32.9**	***100%***	**35.1**	***100%***	**55.0**	***100%***	**63.7**	***100%***
- Drone business total	**30.6**	***93%***	**26.9**	***77%***	***47.6***	***87%***	**48.8**	***76%***

(1) From the second quarter of 2018, revenues for Parrot Professional and Sequoia are presented under "Business Solutions" to reflect internal organization changes. This reclassification has been applied retroactively for the first quarter. In 2017, they were not particularly significant and were presented under "Consumer Drones", in line with the internal organization at the time.
(2) Grouping together the Retail Automotive, Automotive Plug & Play and Connected Devices (business discontinued at end-2017) product lines.

Consolidated income statement

IFRS in €m and % of revenues	**Q2 2018**	**Q2 2018 restated***	**Q2 2017**	**H1 2018**	**H1 2018 restated***	**H1 2017**
Revenues	**32.9**	**33.5**	**35.1**	**55.0**	**55.9**	**63.7**
Gross margin	**12.4**	**13.3**	**15.6**	**23.2**	**24.0**	**27.2**
% of revenues	*37.7%*	*39.3%*	*45.0%*	*42.1%*	*43.0%*	*42.6%*
R&D costs	**-9.5**	**-9.5**	**-9.0**	**-19.0**	**-19.0**	**-19.7**
% of revenues	*-28.8%*	*-28.3%*	*-25.6%*	*-34.5%*	*-34.0%*	*-30.9%*
Sales and marketing costs	**-9.8**	**-10.4**	**-9.8**	**17.7**	**-18.6**	**-21.8**
% of revenues	*-29.7%*	*-31.0%*	*-27.9%*	*-32.1%*	*-33.2%*	*-34.2%*
Administrative costs and overheads	**-4.0**	**-4.0**	**-5.1**	**-9.6**	**-9.6**	**-9.6**
% of revenues	*-12.1%*	*-11.9%*	*-15.1%*	*-17.5%*	*-17.2%*	*-15.0%*
Production and quality costs	**-2.4**	**-2.4**	**-3.0**	**-4.8**	**-4.8**	**-6.2**
% of revenues	*-7.3%*	*-7.1%*	*-8.7%*	*-8.8%*	*-8.7%*	*-9.8%*
Income from ordinary operations	**-13.2**	**-13.2**	**-11.3**	**-27.9**	**-27.9**	**-30.1**
% of revenues	*-40.2%*	*-39.5%*	*-32.3%*	*-50.8%*	*-50.0%*	*-47.3%*
Other operating income and expenses	**2.0**	**2.0**	**41.9**	**2.0**	**2.0**	**-12.2**
EBIT	**-11.2**	**-11.2**	**-53.2**	**-26.0**	**-26.0**	**-42.3**
% of revenues	*-34.1%*	*-33.5%*	*-151.7%*	*-40.7%*	*-46.5%*	*-66.3%*
Financial income and expenses	**0.3**	**0.3**	**-1.9**	**-0.2**	**-0.2**	**-1.8**
Share in income from associates	-1.7	-1.7	-1.2	-5.5	-5.5	-1.2
Corporate income tax	ns	ns	3.1	-0.1	-0.1	-0.7
Income from operations held for sale, net of tax	**na**	**na**	**44.0**	**na**	**na**	**43.5**
Net income	**-12.6**	**-12.6**	**-9.2**	**-31.8**	**-31.8**	**-2.6**
Minority interests	0.5	0.5	-0.3	0.3	0.3	-0.6
Net income (Group share)	**-13.1**	**-13.1**	**-8.9**	**-32.1**	**-32.1**	**-1.9**
% of revenues	*-40.0%*	*-39.3%*	*-25.4%*	*-58.4%*	*-57.4%*	*-3.1%*

**: restated for the impact of IFRS 15. ns: not significant.*

Consolidated balance sheet

IFRS, €m	Jun 30, 2018	Dec 31, 2017
Non-current assets	**59.0**	**160.9**
Goodwill	42.1	41.7
Other intangible assets	1.8	1.5
Property, plant and equipment	4.0	4.1
Financial assets	6.2	6.0
Investments in associates	4.6	107.3
Deferred tax assets	0.3	0.3
Current assets	**202.4**	**241.7**
Inventories	18.0	23.3
Trade receivables	33.7	40.2
Other receivables	21.6	20.7
Other current financial assets	10.0	13.0
Cash and cash equivalents	119.1	144.5
Assets held for sale	**97.4**	**-**
TOTAL ASSETS	**358.8**	**402.7**
Shareholders' equity		
Share capital	4.6	4.6
Additional paid-in capital	331.7	331.7
Reserves excluding earnings for the period	-78.6	-48.2
Earnings for the period - Group share	-32.1	-38.2
Exchange gains or losses	5.4	4.0
Equity attributable to Parrot shareholders	**231.0**	**253.8**
Minority interests	-1.8	-2.7
Non-current liabilities	**18.7**	**71.7**
Non-current financial liabilities	1.2	42.2
Provisions for pensions and other employee benefits	1.1	1.0
Deferred tax liabilities	1.5	1.7
Other non-current provisions	-	-
Other non-current liabilities	14.9	26.8
Current liabilities	**110.9**	**79.8**
Current financial liabilities	41.0	-
Current provisions	12.8	13.9
Trade payables	28.6	37.6
Current tax liability	0.1	0.2
Other current liabilities	28.4	27.9
Liabilities held for sale	**-**	**-**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**358.8**	**402.7**

Consolidated cash-flow statement

IFRS (€m)	Jun 30, 2018	Dec 31, 2017
Operating cash flow		
Earnings for the period from continuing operations	-31.8	-38.9
Share in income from associates	5.5	6.7
Depreciation and amortization	1.0	6.1
Capital gains and losses on disposals	-2.1	-44.7
Tax charges	0.1	1.1
Cost of share-based payments	0.3	1.7
Net finance costs	-0.1	0.3
Cash flow from operations before net finance costs and tax	**-27.1**	**-67.7**
Change in working capital requirements	-1.9	27.9
Tax paid	-0.5	-0.6
Cash flow from operating activities (A)	**-29.5**	**-40.3**
Investing cash flow		
Interest received	-	-
Acquisition of property, plant and equipment and intangible assets	-2.4	-2.3
Acquisition of subsidiaries, net of cash acquired(2)	-	-25.4
Acquisition of long-term financial investments	-0.1	-3.7
Increase in other current financial assets	-	-
Disposal of property, plant and equipment and intangible assets	ns	ns
Disposal of subsidiaries, net of cash divested	2.7	-9.4
Disposal of long-term financial investments	ns	0.2
Cash flow from investment activities (B)	**0.1**	**-40.4**
Financing cash flow		
Equity contributions(3)	-	-
Dividends paid	-	-
Receipts linked to new loans	-	41.1
Cash invested for over 3 months	3.0	14.9
Net finance costs	ns	-0.3
Exchange hedging instruments	-	-
Repayment of short-term financial debt (net)	-0.1	-42.0
Repayment of other debt	-	-
Sales / (Purchases) of treasury stock (4)	ns	ns
Interest paid	-	-
Cash flow from financing activities (C)	**3.0**	**13.7**
Net change in cash position (D = A+B+C)	**-26.4**	**-67.0**
Net foreign exchange gain / loss	0.9	-4.8
Cash and cash equivalents at start of period	**144.5**	**216.3**
Cash and cash equivalents at end of period	**119.1**	**144.5**
Other current financial assets	10.0	13.0
Cash, cash equivalents and other current financial assets at period-end	**129.1**	**157.5**

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