

2018 third-quarter business and earnings

- **Disappointing results in light of a significant consumer drone market contraction**
- **Net income affected by the impairment of goodwill**
- **Development of a unique portfolio of companies focused exclusively on drones**
- **Action plan to retain €100m of cash by end-2019**

Henri Seydoux, Parrot's Chairman, CEO and leading shareholder, explains: *"The end of this year is being complicated by a significant and unexpected contraction of the consumer drone market, which has occurred at the time of the launch of our new drone, the Parrot ANAFI. While the technological performance and the positive reaction received by this product are in line with our expectations, and even though we have gained market share, in a harsh environment whilst preserving our pricing positioning and strategy, the market reversal has held back our revenue growth and impacted all our financial balances. To adapt to the pace of this market, which is very unstable for the time being, our organization is evolving and our action plan was approved by the Board of Directors on November 22. It aims primarily to secure our capacity for action to respond to the drone market's potential over the long term. The possibilities offered by the Parrot ANAFI, the solidity of our commercial subsidiaries and our development on the Defense and Security market will be key assets to bounce back: with a decentralized and flexible strategy, we aim to break even on commercial drones by the end of 2019, while safeguarding the resources that will enable us to capitalize on opportunities for acceleration".*

Parrot: development of a unique portfolio of companies as a pure player for drones

Parrot has chosen to develop a portfolio of subsidiaries and associates. With recognized brands, strong management and complementary positionings, the subsidiaries and associates are focusing on the development of their commercial activities, jointly or independently addressing the needs of consumers, professionals, businesses and major groups, as well as the rest of the drone industry.

By the end of 2019, Parrot aims to have in place a group of outstanding drone companies and around €100m of net cash. The five subsidiaries and five associates are presented below:

Parrot Drone houses the consumer business and the range of Parrot products for professionals, further strengthened by the Parrot ANAFI's performances, but significantly affected by the growth crisis on the consumer drone market. The company is focused on a range of high-tech, lightweight drones, combining performance and multi-capabilities with an international commercial organization managed out of France and client services with global capabilities. Progress in the Defense and Security sector is being reinforced by the interests in **Planck Aerosystems** and **Sky Hero**.

Pix4D dominates the market for drone modelling software with Pix4Dmapper. With industry-leading European R&D and a strong international presence, the company has developed a diverse range of solutions (mobile, desktop, cloud, SaaS, business) for different sectors (mapping, construction, agriculture), meeting the needs of 50.000 users.

SenseFly continues to lead the segment for fixed-wing commercial drones. Recognized for its performance capabilities, the eBee X drone, on sale since early October, includes cutting-edge technology. The solutions deployed for over 4,000 active clients combine drones, sensors and complete solutions for the advanced integration of drones in the most promising sectors (mapping, surveillance and inspection, agriculture).

For drone-based precision farming, **Airinov** carries out the majority of the drone-based service activities for the agricultural sector in France. With a network of 80 independent pilots who perform flights over more than 150,000 hectares of farms each year, the powerful, multi-crop data analysis platform provides reports on crop health and harvest prospects, which can be integrated into the equipment already used by modern farms.

Micasense develops and markets the world's most widely used and most powerful precision data sensors for precision farming.

The expert capabilities in place for precision farming have been further strengthened by the interest in **Chouette Vision**, a company that is developing drone-based vine monitoring solutions.

The other minority interests are **Iconem**, which is contributing to the digital conservation of the world's architectural heritage, and **BioCarbon**, which is working to support reforestation; they both illustrate the benefits of drones for conservation and sustainable development.

All of these outstanding companies represent a unique portfolio in the drone industry.

2018 third-quarter earnings

The financial statements for the third quarter have not been audited. 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 third quarter were approved by the Board of Directors on November 22, 2018. The impact of the writedown of goodwill resulting from the strategic decisions and the revised development outlook for Parrot Drone is applied at September 30, 2018.

• Breakdown of revenues:

IFRS, €m (details appended)	Q3 2018	Q3 2017	Change	9M 2018	9M 2017	Change
- Consumer drones	12.5	22.6	-45%	38.2	50.0	-24%
- Commercial drones	9.3	8.9	+4%	31.1	30.3	+3%
DRONE TOTAL (1)	21.7	31.6	-31%	69.3	80.3	-14%
- Other consumer products	1.7	7.6	-78%	9.1	22.6	-60%
GROUP TOTAL	23.4	39.2	-40%	78.4	102.9	-24%

(1) Revenues for Parrot Professional and Sequoia are presented under “Commercial drones” to reflect internal organization changes. In 2017, they were not particularly significant and were presented under “Consumer Drones”.

Consumer drones (53% of Q3 2018 revenues)

In a consumer drone market that is experiencing a growth crisis, this business generated revenues of €12.5m (-45%). This reflects the change in the product portfolio, with the significant reduction in sales for historical products at the end of their lives (-€14.5m versus Q3 2017), which has not been able to be offset by the new Parrot ANAFI drone’s gradual commercial rollout from July 2018.

On a market panel researched¹ with around €100m for the third quarter of 2018, the contraction represents approximately 22% in value and 19% in volume terms. Parrot considers that far from being saturated, the consumer drone market, after eight years of strong growth, is taking a break. In the segment for leisure drones selling for €500 to €800, the analysis of the data reveals a more marked contraction (-40% in unit terms and -33% in value), concentrated on the North American market (-56%), contrasting with continued growth on the French market (+12%).

Between the second quarter and third quarter, on the segment for drones from €500 to €800, Parrot achieved market share gains, of 5 to 15pts, thanks to the launch of the Parrot ANAFI, which is establishing itself as a leading alternative on the consumer drone market. Despite the fourth quarter’s strong seasonality, the growth crisis, as frequently seen on young and innovative markets, is affecting sales trends and the gross margin, impacted by the adjustment of the outlook for sales, and calls into question the Group’s objective to resume growth and improve the gross margin for its consumer drone business in 2018.

To adjust to this market’s instability, Parrot Drone is adapting its development model: a departure plan covering around 100 people, focused mainly on international operations, is being rolled out with a view to reducing the resources consumed by the marketing and production structures, in line with current market capacity.

Commercial drones (40% of Q3 2018 revenues)

Within a growing commercial drone market, Parrot is focusing on the companies that are moving forward with healthy and effectively managed development models. Over the period, marked by the sector’s significant instability, the commercial drone subsidiaries recorded total revenues of €9.3m (+4%), with contrasting performance levels.

Sales of software and services (Q3 revenues: €6.0m) are up 28%, driven by solid performances for Pix4D, whose range of business solutions has continued to ramp up with the arrival of Pix4Dfields for precision farming. Airinov’s development has plateaued for the moment and it is focusing on the efficiency of its model. On a market for expert services that is still relatively immature, with current needs covered by all the other subsidiaries, Parrot Airsupport is being put on standby.

Equipment sales (Q3 revenues: €3.3m, -23%) are still affected by the delays with launching the next generations of fixed-wing drones, linked to problems with production and sourcing components, resolved at the start of the fourth quarter. While their contribution is lower, sensor sales are still solid. The business solutions range is continuing to grow with this autumn’s launch of the ANAFI Work (construction, real estate, public security) and Parrot Bluegrass Fields (agriculture) packs.

On the vast Defense and Security market, following a phase to research and understand expectations, headed up by the new experts recruited, promising initial trials have been carried out in various countries and the companies (Parrot Drone, Sky Hero and Planck Aerosystems) will deliver their first orders and will gradually ramp up their commercial activities.

¹ The market trends from the GfK and NPD Group reports are compiled based on checkout reports for drones sold for under €2000 by leading physical retailers; they cover the US, France, Germany and the UK, which represent almost 70% of the global consumer drone market.

• Condensed income statement

IFRS in €m and % of revenues	Q3 2018 ⁽¹⁾	Q3 2017 ⁽¹⁾	Change	9M 2018 ⁽¹⁾	9M 2017 ⁽¹⁾	Change
Revenues	23.4	39.2	-40%	78.4	103.0	-24%
Gross margin	4.8	13.5	-64%	28.0	40.6	-31%
<i>% of revenues</i>	<i>21%</i>	<i>34%</i>		<i>36%</i>	<i>39%</i>	
Income from ordinary operations	-21.0	-11.2	-88%	-48.9	-41.3	-18%
<i>% of revenues</i>	<i>-90%</i>	<i>-28%</i>		<i>-62%</i>	<i>-40%</i>	
EBIT	-50.9	-12.6	-304%	-76.8	-54.9	-40%
<i>% of revenues</i>	<i>-130%</i>	<i>-32%</i>		<i>-98%</i>	<i>-53%</i>	
Net income (Group share)	-51.8	-14.1	-267%	-83.9	-16.1	-421%
<i>% of revenues</i>	<i>-132%</i>	<i>-36%</i>		<i>-107%</i>	<i>-16%</i>	

(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 Q3 2018 represents -€0.9m in terms of revenues and the gross margin.

The consolidated **gross margin** for the third quarter represents 21% of revenues, lower than Parrot's expectations. Despite an effectively managed pricing strategy, Parrot Drone has had to revise its purchases, its production plans and its sales outlook to adapt them in line with the consumer drone market's slowdown. Based on the scenario for a delayed and difficult-to-forecast upturn on the consumer market, this trend may not be absorbed before mid-2019 and is still largely subject to changes in market prices.

Current operating expenditure for the third quarter came to €25.8m, up €0.2m from the second quarter of 2018.

R&D spending represents €9.3m (-2% vs. Q2 2018), focused on the next generations of drones designed for sale to both consumers and professionals. They will be decreased by the majority of the costs generated by the external contractors, whose contracts are currently being reviewed.

Sales and marketing spending came to €9.3m (-5% vs. Q2 2018), reflecting the resources deployed for the launch of the Parrot ANAFI and new business solutions (ANAFI Work, Bluegrass Fields, eBeeX, Pix4Dfield). The commercial drone companies will continue moving forward with their international commercial expansion strategy, while Parrot Drone's commercial organization will be managed primarily from France to oversee a network of carefully selected direct and indirect distributors on international markets. The optimization of costs will be combined with an adjustment of marketing budgets in line with market trends, while investments in customer services will be maintained.

Administrative costs and overheads came to €4.9m (+23% vs Q2 2018). The change compared with the previous quarter mainly reflects the adjustment of costs linked to the change in bonus shares for a subsidiary, as well as non-recurring legal costs. This item will continue to accompany growth in the commercial drone companies and may be reduced in connection with the realignment of Parrot Drone and Parrot SA.

Production and quality spending (€2.4m, -1%) is stable and effectively under control; it is based primarily on a flexible model (fabless, in Asia) that may be subject to further adjustments.

Over the period, **other operating income and expenses** came to -€29.9m, with the following breakdown: -€42.3m impairment of goodwill linked to the revised business and earnings assumptions. This is partially offset by income from the disposal of Parrot Faurecia Automotive (+€12.8m) and a connected devices subsidiary (+€2m).

At September 30, 2018, the Group's **workforce** (permanent and fixed-term contracts) represented 658 people (665 at June 30, 2018), in addition to 41 external contractors (50 at June 30, 2018). The Group has 320 staff for commercial drones (330 at June 30, 2018) and 291 for consumer drones (287 at June 30, 2018). The realignment to focus on commercial drone staff will continue moving forward. The departure plan would exclusively concern the consumer business, primarily for international sites, as well as in France, where it will be based on a voluntary approach; it will not affect the R&D team, calibrated to meet the challenges with an offer multiplying the gateways between consumer and commercial uses.

Cash flow and balance sheet at September 30, 2018

Net cash (including current and non-current financial assets and liabilities) represents €171.8m at end-September 2018, with a change of +€84.9m compared with end-June 2018. The quarter's operating losses were offset by the sale of the automotive subsidiary for €108.4m.

The change in working capital requirements represents -€6.3m for the quarter (-€8.2m at September 30, 2018), with the impact of the various launches and the slowdown on the consumer drone market.

Parrot's shareholders' equity represents €181.1m (€231.0m at June 30, 2018), with a total balance sheet of €276.6m (€358.8m at June 30, 2018). This decrease is linked to the total writedown of goodwill and the operating loss for the period. Net inventories represent €34.6m (€18.0m at June 30, 2018), with €38.3m of trade payables (€28.6m at June 30, 2018), reflecting the third quarter's expected seasonality. Trade receivables represent €30.7m (€33.7m at June 30, 2018), in line with the level of business.

Outlook

The guidance announced previously² is being called into question by the consumer market's development. For the fourth quarter, Parrot expects revenues of around €35m and a stable gross margin rate on an annual basis, without any further deterioration in the consumer drone market. Around €15m to €20m are expected to be needed to optimize Parrot Drone's operations, which will focus on an offer with growing numbers of gateways between consumer and commercial uses, and which will make it possible to achieve substantial savings from 2019.

The outlook for 2019 will be reflected in:

- A significant contraction for Parrot Drone's business, in a consumer drone market that is expected to be slow, with commercial uses to gradually 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 drone companies, 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. Most of them are expected to be close to breaking even by the end of the year.

Based on these elements, Parrot is expected to have €100m of cash and an outstanding portfolio of companies and interests at the end of 2019.

Financial diary

- 2018 fourth-quarter earnings: Friday March 15, 2018, before start of trading.

ABOUT DE 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 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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² For reference, when the first-half earnings were announced on August 2, 2018, the objectives were to achieve revenue growth for drones (consumer and commercial) and improve the gross margin, while reducing cash consumption.

APPENDICES

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Breakdown of revenues by business

Consolidated accounts - IFRS (€m and % of Group revenues)	Q3 2018		Q3 2017		9M 2018		9M 2017	
Consumer drones and products	14.2	61%	30.3	77%	47.3	60%	72.7	71%
- Consumer drones ⁽¹⁾	12.5	53%	22.6	58%	38.2	49%	50.0	49%
- Other consumer products ⁽²⁾	1.7	7%	7.6	19%	9.1	12%	22.6	22%
Commercial drones	9.3	39%	8.9	23%	31.1	40%	30.3	29%
- Business equipment ⁽¹⁾	3.3	14%	4.3	11%	12.7	16%	15.5	15%
- Business software and services	6.0	25%	4.6	12%	18.4	23%	14.7	14%
Parrot Group total	23.4	100%	39.2	100%	78.4	100%	102.9	100%
- Drone business total	21.7	93%	31.6	81%	69.3	88%	80.3	78%

(1) Since the second quarter of 2018, revenues for Parrot Professional and Sequoia are presented under "Commercial drones" 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".

(2) Grouping together the Retail Automotive, Automotive Plug & Play and Connected Devices (business shut down at end-2017) product lines.

Consolidated income statement

IFRS in €m and % of revenues	Q3 2018	Q3 2018 restated*	Q3 2017	9M 2018	9M 2018 restated*	9M 2017
Revenues	23.4	24.4	39.2	78.4	80.2	103.0
Gross margin	4.8	5.8	13.5	28.0	29.8	40.6
% of revenues	20.7%	23.8%	34.3%	35.7%	37.2%	39.5%
R&D costs	-9.3	-9.3	-7.6	-28.3	-28.3	-27.3
% of revenues	-39.7%	-38.1%	-19.4%	-36.1%	-36.1%	-26.5%
Sales and marketing costs	-9.3	-10.2	-10.2	-27.0	-28.8	-32.0
% of revenues	-39.5%	-41.8%	-26.0%	-34.3%	-35.9%	-31.0%
Administrative costs and overheads	-4.9	-4.9	-4.8	-14.5	-14.5	-14.4
% of revenues	-20.9%	-20.1%	-12.3%	-18.5%	-18.1%	-14.0%
Production and quality costs	-2.4	-2.4	-2.0	-7.2	-7.2	-8.2
% of revenues	-10.1%	-9.8%	-5.2%	-9.2%	-9.0%	-8.0%
Income from ordinary operations	-21	-21	-11.2	-48.9	-48.9	-41.3
% of revenues	-89.6%	-89.1%	-28.5%	-62.4%	-60.0%	-40.1%
Other operating income and expenses	-29.9	-29.9	-1.4	-27.9	-27.9	-13.6
EBIT	-50.9	-50.9	-12.6	-76.8	-76.8	-54.9
% of revenues	-217.1%	-208.6%	-32.1%	-98.0%	-95.8%	-53.3%
Financial income and expenses	-0.4	-0.4	-1.0	-0.6	-0.6	-2.8
Share in income from associates	-1.9	-1.9	-1.2	-7.4	-7.4	-2.4
Corporate income tax	1.3	1.3	0.4	1.1	1.1	-0.3
Income from operations held for sale, net of tax	-	-	-	-	-	43.5
Net income	-51.9	-51.9	-14.4	-83.6	-83.6	-17.0
Minority interests	-0.04	-0.04	-0.3	0.2	0.2	-0.9
Net income (Group share)	-51.8	-51.8	-14.1	-83.9	-83.9	-16.1
% of revenues	-221.1%	-212.3%	-36.0%	-107.0%	-104.0%	-15.6%

*: restated for the impact of IFRS 15.
