

2013 first-quarter earnings

Key Account sales affected by the deterioration in the automotive environment

Marketing of Retail infotainment products gradually being ramped up

Multimedia product penetration continuing to develop

Operating expenses kept under control, R&D investments maintained

Consolidated accounts ⁽¹⁾ - IFRS (€M)	Q4 2011	Q4 2012	Change	Q1 2012	Q1 2013	Change
Revenues	71.7	73.0	+2%	64.4	57.4	-11%
Gross operating margin	38.5	38.1	-1%	34.7	29.7	-14%
% of revenues	53.7%	52.2%		53.9%	51.7%	
Income from ordinary operations	10.6	6.8	-36%	8.1	0.6	-92%
% of revenues	14.7%	9.3%		12.5%	1.1%	
EBIT	9.3	6.8	-27%	8.1	0.6	-92%
% of revenues	13.0%	9.3%		12.6%	1.1%	
Net income (Group share)	10.9	4.4	-60%	5.0	0.7	-86%
% of revenues	15.3%	6.0%		7.7%	1.2%	
Earnings per share	0.85	0.34	-60%	0.39	0.05	-86%
Diluted earnings per share	0.81	0.32	-60%	0.37	0.05	-86%
Net debt	86.6	81.2		93.5	77.8	

(1) Consolidated earnings for 2012 include DiBcom and Varioptic for the full year, senseFly from the fourth quarter.

2013 first-quarter business

Over the period, Parrot recorded 57.4 million euros in consolidated revenues, down 11% in relation to the first quarter of 2012. Compared with the fourth quarter of 2012, the changes are not particularly representative due to the favorable impact of the seasonality of end-of-year sales on Retail products.

For the first quarter, Retail Products represented 50% of the Group's revenues (versus 39% in Q1 2012), with Key Account products coming in at 50% as well (versus 61% in Q1 2012). Following on from the fourth quarter, the Key Account segment's dynamic commercial development has been held back by the downturn on the automotive market, with the good performances by Retail products partially offsetting this general trend.

Key Accounts

In the first quarter of 2013, Key Account revenues (grouping together sales of multimedia connectivity solutions to industrial automotive firms, as well as related activities resulting from acquisitions) came to 28.7 million euros, compared with 39.4 million euros for the first quarter of 2012, down 27%. Revenues for the period are in line with trends from the fourth quarter of 2012.

The contraction in sales primarily reflects the drop in volumes, in view of (i) the destocking policy applied by the automotive industry faced with the downturn (estimated impact of -5 million euros for the quarter), (ii) an unfavorable basis for comparison linked to the end of exceptional orders (around -3 million euros for the quarter) since the fourth quarter of 2012, and (iii) the contractual reduction in sales prices in preparation for a new innovation cycle (around - 2 million euros for the quarter).

On the infotainment market, Parrot, which already works with six industrial operators, two of which will start equipping their models from the second half of 2013, is currently taking part in additional targeted prospecting campaigns, which essentially concern potential new clients.

In view of the current impact of the general environment on sales of Key Account automotive products, Parrot is able to confirm that, for the current year, the order book for the next three quarters represents approximately 30 million euros per quarter.

Retail

In the first quarter of 2013, Retail revenues (grouping together aftermarket installed handsfree systems, Plug & Play, Multimedia and "Other" products) climbed 15% to 28.7 million euros, compared with 25.0 million euros in the first quarter of 2012.

The three Retail infotainment products (Parrot Asteroid) have gradually been released since the end of February, with a positive response from the media and retailers. This launch is particularly strategic for the Group: the dynamic commercial development of Parrot Asteroid products will make it possible to balance revenues on installed handsfree systems over the year with a view to fully benefiting from the growth generated by the other ranges of Retail products, in addition to demonstrating Parrot's ability to position itself on this new infotainment market.

With distinctive innovations designed to offer consumers a rich digital environment adapted for cars, the new Parrot Asteroid range covered around 30% of the Group's global distribution capacity at the end of March. All the distribution networks worldwide are expected to receive deliveries by the end of this financial year. In this context, the new generation of products did not offset the drop in sales of first-generation installed handsfree systems over the period; globally, revenues on installed handsfree systems (22% of Group revenues / 44% of Retail revenues) are down 27%. Plug & Play products (7% of Group revenues / 15% of Retail revenues), renewed in 2012, have continued to make progress, with growth coming in at 24% for the quarter.

The penetration by the main Multimedia products (Parrot AR.Drone 2, Parrot Zik and Parrot Zikmu Solo) has continued to develop, achieving 294% growth, with this rate also benefiting from a favorable base effect (release of Parrot Zik from H2 2012, launch of Parrot AR.Drone in Q2 2012).

From a regional perspective, sales in Europe are down 7% in relation to the first quarter of 2012, affected by the decline in sales in Spain (-41%) and the Benelux region (-40%), while all the other countries are progressing. On the whole, revenues are balanced between the main countries (France 7% of Group revenues, UK 6%, Spain 4%, Germany 5%, Europe Export 8%). Conversely, business trends remained very strong in America (8% of Group revenues, +113%) and Asia (9% of Group revenues, +118%).

As Henri Seydoux, Parrot's Chairman, CEO and founder, concludes: "The Group intends to continue rolling out its strategy for expansion and innovation in line with its development plan for 2013. To finalize the new Retail products and meet the expectations of Key Account prospects, we maintained a high level of R&D investment during this first quarter; in this context, our results will be close to breaking even for the first half of the year.

Today, Parrot has the possibility to capitalize on new opportunities for growth on infotainment, multimedia and commercial drones. Our success on these markets depends to a great extent on our technological lead and that is why we have been implementing an ambitious strategy for expansion and innovation since 2009. The first benefits will be seen from the second half of 2013 and we are organized to get ready for a significant acceleration in 2015. We are moving forward with our transition to the infotainment market, the finishing line is approaching, this is not the time to slow down".

Gross margin

For the first quarter of 2013, Parrot's gross margin came to 51.7%, compared with 53.9% for the first quarter of the previous year. The change in the gross margin is due to (i) the reduction in the percentage of revenues generated by Key Accounts and (ii) the lower margins on the new Retail products, with their rate to gradually improve, (iii) offset punctually by sales of end-of-life products.

EBIT

Over the first quarter, EBIT came to 0.6 million euros, giving an operating margin of 1.1%. R&D spending has been maintained, despite the slowdown in business due to the general environment, in order to ensure the development of infotainment solutions, drive the expansion on related high-potential markets and continue innovating in the Retail sector.

During the first quarter of this year, operating expenses totaled 29.0 million euros, up 2.4 million euros compared with the same period the previous year and down 2.4 million euros in relation to the fourth quarter of 2012. The changes in the main cost items were as follows:

- R&D spending, at 12.5 million euros (22% of revenues), is up 37% year-on-year and 13% compared with the previous quarter, reflecting the finalization of the infotainment products launched during the quarter. At the start of the second quarter of 2013, the contracts for around 40 external contractors (out of a total of 101 at December 31st, 2012) were terminated. The resources set aside for R&D are focused in priority on two areas:

- Designing a complete proprietary infotainment solution named Asteroid, enabling access to useful multimedia and online services for drivers, notably including the digital radio and television technologies resulting from the acquisition of DiBcom;
 - Driving Parrot's expansion on related high-potential markets in the connectivity, digital optical and multimedia sectors, as well as civil drones for commercial environments.
- Sales and marketing spending, at 9.9 million euros (17% of revenues), is down 14% year-on-year (28% versus the previous quarter). To adapt to the downturn in the general economic environment, external marketing spending has been scaled back and internal resources have been reassigned in view of the opportunities identified.
 - General costs came to 3.7 million euros (6% of revenues), with production and quality-related costs representing 3.0 million euros (5% of revenues), stable on an annual and quarterly basis excluding the extension of the scope linked to senseFly.

At March 31st, 2013, the Group's workforce represented 848 people, compared with 830¹ at December 31st, 2012. R&D teams make up over 50% of the workforce, with 79 external contractors (compared with 101 at December 31st, 2012) meeting temporary technological needs.

Net income

Financial income and expenses include a non-cash exchange gain of 1.0 million euros (unrealized gain on the euro against the US dollar over the period) for the first quarter, compared with an unrealized exchange loss of 2.2 million euros in the first quarter of 2012. Investment income, net of the cost of debt, contributed 0.1 million euros, while the tax expense for the quarter came to 1.2 million euros.

In this way, net income (Group share) totaled 0.7 million euros for the first quarter of 2013, representing 0.05 euros per share, with a net margin of 1.2%.

Cash flow and balance sheet at March 31st, 2013

At March 31st, 2013, Parrot had 77.8 million euros in net cash, compared with 81.2 million euros at December 31st, 2012. Investing cash flow, primarily capitalized R&D in line with traditional levels, totaled 3.9 million euros, coming in higher than the 1.8 million euros in net cash from operations for the quarter.

In addition, Parrot has continued moving forward with its share buyback program (2.3 million euros over the quarter) in accordance with its objectives (i) to award bonus shares and stock options representing around 2% of its capital per year in connection with employee loyalty programs and (ii) to offset the dilution resulting from stock options being issued through the cancelation of shares.

At March 31st, 2013, inventories came to a total of 41.4 million euros (versus 43.7 million euros at December 31st, 2012), with the gradual stock reduction plan continuing to be rolled out in view of the economic climate. Trade receivables represent 41.8 million euros (versus 49.6 million euros at December 31st, 2012), with 34.6 million euros in trade payables (versus 43.4 million euros² at December 31st, 2012). The Group's shareholders' equity is up to 188.6 million euros, compared with 188.5 million euros at December 31st, 2012. Net assets per share represent 14.7 euros (compared with 14.8 euros at December 31st, 2012).

Strategy and outlook for 2013

In 2013, Parrot needs to continue steering its transition from its traditional market for handsfree systems towards the infotainment market, securing its future growth. Faced with its historical market reaching maturity, the Group has been preparing since 2009 to renew its product ranges in order to capitalize on a new wave of innovation. Parrot is banking on the digitalization of the car and aims to continue expanding in multimedia and related high-potential markets. In this context, the development plan for 2013 is built around four priorities:

- The commercial launch of the three Parrot Asteroid Retail infotainment products;
- The ramping up of Key Account products focused on infotainment and in particular new design wins, expected during the year to offset the gradual erosion on its current market;
- The ongoing strategy for expansion and innovation outside of the automotive sector, particularly in relation to new connected objects and the new possibilities opened up by Bluetooth Low Energy;
- Investments to support the Group's development on related markets with strong potential: mobile digital radio and television, digital optical and commercial civil drones.

¹ The headcount figures at December 31st, 2012 and March 31st, 2013 include senseFly.

² The option to buy out senseFly's remaining capital, initially recorded under "trade payables on fixed assets", has been reclassified under "other non-current liabilities".

For 2013, Parrot will be taking the deterioration in the economic environment into consideration, but aims to move forward with its key investments. Within this framework, Parrot is forecasting:

- **A contraction in Key Account revenues**, in view of expectations for:
 - Parrot's sales to be affected by the downturn in sales for the automotive industry, and particularly the decline in production among the high-end European manufacturers with which Parrot has particularly strong references;
 - The sales cycle for the connectivity modules offered by Parrot since 2009 to result in a contractual reduction in prices during the year, which is expected to be offset from the second half of the year with the arrival of the new infotainment solutions;
 - The first two infotainment solutions to move into production for European automotive customers during the second half of 2013; at this stage, three of the other four design wins are set to be brought into production in 2014, followed by one in 2015.

- **The resumption of growth for Retail products**, supported by:
 - The launch of the three new Retail infotainment products from February 2013: Parrot Asteroid Mini, Parrot Asteroid Smart and Parrot Asteroid Tablet;
 - The continued success with sales of Multimedia products (Parrot AR.Drone 2, Parrot Zik);
 - Parrot Flower Power, an intelligent Bluetooth Low Energy sensor for taking care of plants. Unveiled at the 2013 CES, the Parrot Flower Power is scheduled to be released during the second half of 2013.

- **Greater control over spending with a view to reducing the impact of investments on the Group's profitability**, in view of the following factors:
 - The product portfolio and component sourcing management approach have been calibrated to enable the Group to keep its gross margin at around 50%;
 - The prioritization of Sales and Marketing spending aims to support the high-potential regions (America, Asia, Eastern Europe), in line with the reallocation of commercial resources;
 - The ongoing R&D drive, with the incorporation of senseFly over a full year and the allocation of essential resources to cover the four main priorities, moderated through a gradual reduction in external contractors;
 - Exchange rate volatility (US dollar / euro) may have an impact on revenues and financial income and expenses;
 - A stock reduction plan will also contribute towards cash generation over the year.

With a portfolio of complementary technologies, strong R&D capabilities and a commitment to developing on related high-potential markets, Parrot aims to lay the foundations in 2013 for a new wave of strong growth. To achieve this objective, the Group is banking on its penetration on the infotainment market, the renewal of its success on smartphone-connected Multimedia products and its gradual expansion on the commercial civil drone market.

Next financial dates

- May 28th, 2013: Arkéon Finance Forum
- June 4th, 2013: combined general meeting of Parrot's shareholders
- July 30th, 2013: 2013 second-quarter earnings

ABOUT PARROT

Parrot, a global leader in wireless devices for mobile phones, stands on the cutting edge of innovation. The company was founded in 1994 by Henri Seydoux as part of his determination to drive the inevitable breakthrough of mobile phones into everyday life by creating high-quality, user-friendly wireless devices for easy living.

Parrot has developed the most extensive range of hands-free systems on the market for cars. Its globally recognized expertise in the fields of mobile connectivity and multimedia around Smartphones has positioned Parrot as a key player of in-car infotainment.

Additionally, Parrot designs and markets a prestigious line of high-end wireless multimedia products in collaboration with some of the world's most renowned designers. Finally, Parrot is expanding on the UAV market with the Parrot AR.Drone, the first quadcopter piloted via Wi-Fi and using augmented reality with new solutions for professional use.

Parrot, headquartered in Paris, currently employs more than 700 people worldwide and generates the majority of its sales overseas. Parrot is listed on NYSE Euronext Paris since 2006. (FR0004038263 – PARRO)

More information: www.parrot.com / www.ardrone.com / www.parrotoem.com

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APPENDICES

Consolidated earnings for 2012 include DiBcom and Varioptic over the full year and senseFly from the fourth quarter of 2012. The consolidated accounts were approved by the Board of Directors on May 14th, 2013.

➤ BREAKDOWN OF REVENUES BY PRODUCT

Consolidated revenues €M and % of revenues	Q1 2012		Q1 2013		Change yoy	Q4 2012		Change qoq
Installed handsfree systems	17.5	27%	12.7	22%	-27%	15.5	21%	-18%
Plug & Play products	3.4	5%	4.2	7%	+24%	4.5	6%	-6%
Multimedia products	2.4	4%	9.6	17%	+294%	21.6	30%	-56%
Other	1.7	3%	2.2	4%	+32%	2.1	3%	+5%
Total Retail revenues	25.0	39%	28.7	50%	+15%	43.7	60%	-34%
Total Key Account revenues	39.4	61%	28.7	50%	-27%	29.3	40%	-2%
Group revenues	64.4	100%	57.4	100%	-11%	73.0	100%	-21%

(1) Multimedia products: Parrot By and Parrot AR.Drone.

(2) "Other": primarily component sales to suppliers, ancillary sales to customers (marketing, delivery, etc.).

➤ BREAKDOWN OF REVENUES BY REGION

Consolidated revenues €M and % of revenues	Q1 2012		Q1 2013		Change yoy	Q4 2012		Change qoq
EMEA	20.5	32%	19.1	33%	-7%	27.8	38%	-31%
America	2.1	3%	4.6	8%	+113%	11.6	16%	-61%
Asia	2.3	4%	5.1	9%	+119%	4.4	6%	+16%
Total Retail revenues	25.0	39%	28.7	50%	+15%	43.7	60%	-34%
Total Key Account revenues	39.4	61%	28.7	50%	-27%	29.3	40%	-2%
Group revenues	64.4	100%	57.4	100%	-11%	73.0	100%	-21%

➤ CONDENSED INCOME STATEMENT

Consolidated accounts - IFRS (€M)	Q1 2012	Q1 2013	Change yoy	Q4 2012	Change qoq
Revenues	64.4	57.4	-11%	73.0	-21%
Gross operating margin	34.7	29.7	-14%	38.1	-22%
<i>% of revenues</i>	53.9%	51.7%		52.2%	
Research and development costs	9.1	12.5	+37%	11.1	+13%
<i>% of revenues</i>	14.1%	21.8%		15.2%	
Sales and marketing costs	11.5	9.9	-14%	13.8	-28%
<i>% of revenues</i>	17.8%	17.3%		18.9%	
General and administrative costs	3.8	3.6	-3%	3.5	+3%
<i>% of revenues</i>	5.9%	6.3%		4.8%	
Production and quality costs	2.3	3.0	+32%	3.0	0%
<i>% of revenues</i>	3.5%	5.2%		4.1%	
Income from ordinary operations	8.1	0.6	-92%	6.8	-90%
<i>% of revenues</i>	12.5%	1.1%		9.3%	
EBIT	8.1	0.6	-92%	6.8	-90%
<i>% of revenues</i>	12.6%	1.1%		9.3%	
Cost of net financial debt	0.4	0.09	-76%	0.2	-58%
Other financial income and expenses	-2.2	1.0	-146%	-0.7	-241%
Share in income from equity affiliates	-	-	-	-0.2	-
Corporate income tax	-1.3	-1.2	-10%	-1.7	-29%
Net income (Group share)	5.0	0.7	-86%	4.4	-84%
<i>% of revenues</i>	7.7%	1.2%		6.0%	
