Parrot

PRESS RELEASE
Paris, July 29th, 2013 - 6:00 pm

2013 second-quarter earnings

Further progress in expanding on the infotainment market

Retail infotainment product distribution gradually extended

Operating expenditure under control, R&D investments maintained

Consolidated accounts[(1)] IFRS (€M)	Q1 2013	Q2 2012	Q2 2013	Change yoy	Change qoq	H1 2012	H1 2013	Change
Revenues	**57.4**	**70.7**	**61.8**	**-13%**	**+ 8%**	**135.1**	**119.2**	**-12%**
Gross margin	**29.7**	**34.8**	**31.2**	**-10%**	**+ 5%**	**69.5**	**60.9**	**-12%**
% of revenues	*51.7%*	*49.3%*	*50.5%*			*51.5%*	*51.1%*	
Income from ordinary operations	**0.6**	**8.7**	**2.3**	**-74%**	**+ 253%**	**16.7**	**2.9**	**-82%**
% of revenues	*1.1%*	*12.3%*	*3.7%*			*12.4%*	*2.5%*	
EBIT	**0.6**	**8.3**	**2.3**	**-73%**	**+ 253%**	**16.4**	**2.9**	**-82%**
% of revenues	*1.1%*	*11.8%*	*3.7%*			*12.2%*	*2.5%*	
Net income (Group share)	**0.7**	**9.3**	**0.6**	**-94%**	**-14%**	**14.2**	**1.3**	**-93%**
% of revenues	*1.2%*	*13.1%*	*0.9%*			*10.5%*	*1.1%*	
Earnings per share[(2)]	**0.05**	**0.73**	**0.05**	**-94%**	**-14%**	**1.12**	**0.10**	**-93%**
Diluted earnings per share	0.05	0.70	0.04	-94%	-14%	1.07	0.09	-93%
Net cash						**94.4**	**74.8**	**-21%**

(1) Consolidated earnings for 2012 include DiBcom and Varioptic over the full year and senseFly from the fourth quarter of 2012.
(2) Accounting number of shares: 12,698,459, diluted number of shares: 13,436,916.

2013 second-quarter business

Over the period, Parrot recorded 61.8 million euros in consolidated revenues, down 13% in relation to the second quarter of 2012. Compared with the first quarter of 2013, revenues are up 8%.

For the second quarter, Retail Products represented 50% of the Group's revenues (versus 42% in Q2 2012), with Key Account products coming in at 50% as well (versus 58% in Q2 2012).

Key Accounts

In the second 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 30.8 million euros, compared with 41.3 million euros for the second quarter of 2012, down 25%. Trends have followed on from those seen since the fourth quarter of 2012 (general automotive industry environment, contraction for previous-generation solutions, end of an exceptional contract). The new infotainment range is gradually taking over: the first infotainment solutions designed by Parrot have been delivered, representing 6% of Key Account revenues for the period.

On the infotainment market, Parrot is working with two new industrial firms, in addition to the six contracts already in place, thus totalizing 8 infotainment customers. The two solutions developed for Volvo and a British supercar manufacturer have moved into the production phase. A further five contracts are expected to be gradually brought into production in 2014 and 2015, while the last customer is currently covered by an R&D contract aiming to develop an infotainment solution. Alongside this, the Group is continuing to focus on additional prospecting initiatives built primarily around strong value-added solutions for high-end customers.

Retail

In the second quarter of 2013, Retail revenues (grouping together aftermarket installed handsfree systems, Plug & Play, Multimedia and “Other” products) climbed to 31.0 million euros, some 5% higher than the second quarter of 2012 (29.4 million euros). Compared with the first quarter of 2013, Retail revenues are up 8%.

The three new Retail infotainment products (Parrot Asteroid range) have gradually been released since the end of February 2013, with a positive response from the media and retailers. Alongside this, the Asteroid

Market, the platform for dedicated infotainment product applications, is being strengthened: around 40 applications designed for in-car environments and adapted for the various countries are already available. The commercial deployment is moving forward in line with the Group's expectations, with all the distribution networks worldwide to be covered by the end of the year.

For the period, traditional handsfree kits are down 3% compared to the second quarter of 2012, a slower decrease than previously recorded, while Plug & Play products are up 53%. Both of these ranges have benefited from various promotional operations. Combined with sales of the three Parrot Asteroid products, annual growth for Retail Automotive products comes out at 18%. Excluding special operations, Retail Automotive product sales are stable, in line with the Group's expectations.

Revenues for Multimedia products totaled 11 million euros, a decline of 8% compared to the second quarter of 2012, temporarily affected by an unfavorable basis for comparison: Parrot AR.Drone 2 deliveries started up during the second quarter of 2012. Over the first six months of the year, Parrot AR.Drone 2 sales continued to progress (+5%). On the other hand, sales of the Parrot Zik high-end headphones have continued to benefit from a favorable comparison period. Compared with the first quarter of 2013, Multimedia product revenues are up 14%.

From a regional perspective, sales in Europe are improving (+9% versus the first quarter of 2013, -2% versus the second quarter of 2012). Revenues generated in Spain (4% of Group revenues) show an increase of 4% compared to the second quarter of 2012, buoyed by strong interest in the new infotainment products among retailers. Growth has also been achieved in the UK (7% of Group revenues, +23%), in Italy (3% of Group revenues, +41%) and in the German-speaking region (6% of Group revenues, +27%). However, France (7% of Group revenues) is down 22%, reflecting the impact of the Parrot AR.Drone 2 sales during the 2nd quarter of 2012, with the Europe export segment (8% of Group revenues, -23%) not yet benefiting from sales of the new Parrot Asteroid products. Business trends have remained strong in America (9% of Group revenues, +4%) and Asia (7% of Group revenues, +70%).

Gross margin

For the second quarter of 2013, Parrot's gross margin came to 50.5%, compared with 49.3% for the second quarter of the previous year. The gross margin rate has continued to benefit from various non recurring sales operations.

EBIT

During the second quarter, EBIT came to 2.3 million euros, with an operating margin of 3.7%. To support its expansion on the infotainment market, as well as related high-potential markets, while continuing to innovate in the Retail sector, Parrot is only implementing marginal cost reductions.

During the second quarter, operating expenses totaled 29 million euros, up 2.8 million euros compared with the same period the previous year and stable in relation to the first quarter of 2013. The changes in the main cost items were as follows:

- R&D spending is up 13% compared to the second quarter of 2012, to 11.2 million euros (18% of revenues). Compared with the first quarter of 2013, spending levels are down 1.3 million euros, reflecting the measures announced following the launch of the Parrot Asteroid products: contracts with 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 is up 12% compared to the second quarter of 2012, to 11.3 million euros (18% of revenues), factoring in 1 million euros of reorganization costs to optimize the sales force in an environment focused on effective cost control.
- General costs came to 3.8 million euros (6% of revenues), with production and quality-related costs representing 2.7 million euros (4% of revenues), stable on an annual and quarterly basis excluding the extension of the scope linked to senseFly.

At June 30th, 2013, the Group's workforce represented 845 people, compared with 848[1] at March 31st, 2013. R&D teams make up over 50% of the workforce, with 51 external contractors (compared with 79 at March 31*st*, 2013) meeting temporary needs.

[1] The workforce figures include senseFly.

Net income

Financial income and expenses for the second quarter include a negative currency conversion (Euro / US Dollar) effect of 0.7 million euros, compared with a 2.9 million euros positive currency effect for the second quarter of 2012. Investment income, net of the cost of debt, contributed 0.3 million euros, while the tax expense for the quarter came to 1.3 million euros.

In this way, net income (Group share) totaled 0.6 million euros for the second quarter of 2013, representing 0.05 euros per share, with a net margin of 0.9%.

Cash flow and balance sheet at June 30th, 2013

At June 30th, 2013, Parrot had 74.8 million euros in net cash, compared with 81.2 million euros at December 31st, 2012. For the first half of the year, investing cash flow, focused primarily on capitalized R&D, came to 7.6 million euros, compared with 8.2 million euros for the first half of 2012.

In addition, Parrot has continued moving forward with its share buyback program (5.5 million euros over the half-year period) 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 June 30th, 2013, net inventories came to a total of 32.0 million euros (versus 43.7 million euros at December 31st, 2012), with the stock reduction plan continuing to be rolled out. Trade receivables are down to 41.0 million euros (versus 50.9 million euros at December 31st, 2012), with trade payables dropping to 26.7 million euros (versus 43.4 million euros at December 31st, 2012), temporarily affected by the stock reduction plan.

The Group's shareholders' equity represents 187.3 million euros (versus 188.5 million euros at December 31st, 2012), in view of a capital reduction following the cancellation of 200,000 treasury shares on May 15th, 2013. Net assets per share represent 14.7 euros (compared with 14.8 euros at December 31st, 2012).

Strategy and outlook for 2013

The strategy and outlook for 2013 remain the same: during this year, Parrot needs to steer the 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.

For 2013, Parrot will be taking the deterioration in the economic environment into consideration, but at this stage 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:
  - The deterioration in the general environment for the automotive industry;
  - The Group’s gradual penetration on the new and growing infotainment market, at the same time as its historical market’s decline;
  - The revenues generated by the first infotainment solutions will ramp up progressively.

- **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 inventory 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;
  - The expected benefits from the stock reduction plan.

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

- October 2nd – 3rd, 2013: MidCap Event, Paris (CF&B)
- November 7th, 2013: Tech Stocks Day (Natixis)
- November 15th, 2013: 2013 third-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 quadricopter 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 have been subjected to a limited review by the auditors and have been approved by the Board of Directors on July 29th, 2013.

↗ Breakdown of revenues by product

Consolidated accounts - IFRS (€M and % of Group revenues)	Q2 2012		Q2 2013		H1 2012		H1 2013	
Installed handsfree systems	13.8	20%	15.6	25%	31.3	23%	28.2	24%
Plug & Play products	1.9	3%	2.8	5%	5.3	4%	7.1	6%
Multimedia products (1)	12.0	17%	11.0	18%	14.4	11%	20.6	17%
Other (2)	1.7	2%	1.5	2%	3.4	3%	3.8	3%
Total Retail revenues	**29.4**	**42%**	**31.0**	**50%**	**54.4**	**40%**	**59.7**	**50%**
Total Key Account revenues	**41.3**	**58%**	**30.8**	**50%**	**80.7**	**60%**	**59.5**	**50%**
Group total	**70.7**	**100%**	**61.8**	**100%**	**135.1**	**100%**	**119.2**	**100%**

(1) Multimedia products: Parrot By products and Parrot AR.Drone.
(2) "Other": (i) accessory sales (steering wheel-mounted controls, cables, etc.), (ii) ancillary sales to customers (marketing, delivery, etc.), and (iii) component sales to suppliers.

↗ Breakdown of revenues by region

Consolidated accounts - IFRS (€M and % of Group revenues)	Q2 2012		Q2 2013		H1 2012		H1 2013	
EMEA	**21.3**	30%	**20.8**	34%	**41.8**	31%	**39.9**	33%
United States	**5.4**	8%	**5.6**	9%	**7.6**	6%	**10.2**	9%
Asia	**2.6**	3%	**4.5**	7%	**5.0**	4%	**9.6**	8%
Total Retail revenues	**29.4**	**42%**	**31.0**	**50%**	**54.4**	**40%**	**59.7**	**50%**
Total Key Account revenues	**41.3**	**58%**	**30.8**	**50%**	**80.7**	**60%**	**59.5**	**50%**
Group total	**70.7**	**100%**	**61.8**	**100%**	**135.1**	**100%**	**119.2**	**100%**

↗ Condensed income statement

Consolidated accounts - IFRS (€M)	Q2 2012	Q2 2013	H1 2012	H1 2013
Revenues	**70.7**	**61.8**	**135.1**	**119.2**
Gross margin	**34.8**	**31.2**	**69.5**	**60.9**
% of revenues	*49.3%*	*50.5%*	*51.5%*	*51.1%*
Research and development costs	**10.0**	**11.2**	**19.1**	**23.7**
% of revenues	*14.1%*	*18.1%*	*14.1%*	*19.9%*
Sales and marketing costs	**10.0**	**11.3**	**21.5**	**21.2**
% of revenues	*14.2%*	*18.3%*	*15.9%*	*17.8%*
General costs	**3.4**	**3.7**	**7.2**	**7.4**
% of revenues	*4.8%*	*6.1%*	*5.3%*	*6.2%*
Production and quality costs	**2.7**	**2.7**	**5.0**	**5.7**
% of revenues	*3.9%*	*4.4%*	*3.7%*	*4.8%*
Income from ordinary operations	**8.7**	**2.3**	**16.7**	**2.9**
% of revenues	*12.3%*	*3.7%*	*12.4%*	*2.5%*
EBIT	**8.3**	**2.3**	**16.4**	**2.9**
% of revenues	*11.8%*	*3.7%*	*12.2%*	*2.5%*
Cost of net financial debt	-0.2	0.2	0.2	0.3
Other financial income and expenses	2.9	-0.6	0.7	0.3
Share in income from equity affiliates	-0.1	NS	-0.1	NS
Corporate income tax	-1.7	-1.3	-3.0	-2.5
Net income (Group share)	**9.3**	**0.6**	**14.2**	**1.3**
% of revenues	*13.1%*	*0.9%*	*10.5%*	*1.1%*
Minority interests	-	-0.1	-	-0.2
Net income	**9.3**	**0.5**	**14.2**	**1.1**

↗ Consolidated balance sheet

Consolidated accounts - IFRS (€M)	Jun 30, 2012	Dec 31, 2012	Jun 30, 2013
Non-current assets	**74.5**	**82.4**	**84.8**
Goodwill	39.7	41.6	41.6
Other intangible fixed assets	22.1	26.4	29.3
Tangible fixed assets	8.5	9.4	8.9
Financial assets	0.8	2.8	1.9
Investments in associates	-	-	1.1
Deferred tax assets	3.4	2.2	2.0
Current assets	**222.3**	**222.7**	**195.4**
Inventories	31.6	43.7	32.0
Trade receivables	53.2	50.9	41.0
Other receivables	15.0	21.9	26.0
Other current financial assets	37.0	33.1	36.2
Cash and cash equivalents	85.5	**73.1**	60.2
TOTAL ASSETS	**296.8**	**305.1**	**280.2**

Consolidated accounts - IFRS (€M)	Jun 30, 2012	Dec 31, 2012	Jun 30, 2013
Shareholders' equity			
Share capital	1.9	1.9	1.9
Issue and contribution premiums	53.0	54.2	49.7
Reserves excluding earnings for the period	123.2	107.6	134.0
Earnings for the period - Group share	14.2	24.5	1.3
Exchange gains or losses	1.1	0.3	0.4
Equity attributable to Parrot SA shareholders	193.5	188.5	187.3
Minority interests	-	-0.2	-0.4
Non-current liabilities	**25.2**	**38.6**	**35.3**
Non-current financial liabilities	21.9	18.7	15.3
Pension provisions and related commitments	1.2	1.6	1.8
Deferred tax liabilities	0.4	0.3	0.2
Other non-current provisions	1.8	1.5	1.6
Other non-current liabilities	-	16.5	16.5
Current liabilities	**78.1**	**78.1**	**58.0**
Current financial liabilities	6.2	6.3	6.3
Current provisions	12.6	9.7	8.0
Trade payables	39.5	43.4	26.7
Current tax liability	2.1	1.3	2.0
Other current liabilities	17.6	17.4	14.9
TOTAL SHAREHOLDERS' EQUITY & LIABILITIES	**296.8**	**305.1**	**280.2**

↗ Cash-flow statement

Consolidated accounts - IFRS (€M)	Jun 30, 2012	Dec 31, 2012	Jun 30, 2013
CASH FLOW FROM OPERATIONS			
Earnings for the period	14.2	24.3	1.1
Share in income from equity affiliates	0.1	NS	NS
Depreciation and amortization	4.6	6.6	3.8
Capital gains and losses on disposals	-	NS	0.2
Tax charges	3.0	6.5	2.5
Cost of share-based payments	2.0	4.1	2.2
Cost of net financial debt	-0.2	-0.3	-0.3
Cash flow from operations before tax and cost of net financial debt	**23.8**	**41.1**	**9.4**
Change in working capital	-8.4	-17.7	-3.7
Tax paid	0.1	-4.0	0.1
Net cash from operating activities (a)	**15.5**	**19.5**	**5.8**
CASH FLOW FROM INVESTMENTS			
Acquisition of tangible and intangible fixed assets	-8.3	-17.3	-7.6
Acquisition of subsidiaries, net of cash acquired	-	-0.9	-
Acquisition of long-term financial investments	-0.1	-2.1	-0.3
Disposal of long-term financial investments	NS	NS	NS
Cash flow from investment activities (b)	**-8.4**	**-20.3**	**-7.9**

FINANCING CASH FLOW			
Equity contributions	0.1	1.2	0.2
Receipts linked to new loans	-	-	NS
Cash invested for over 3 months	-3.1	0.7	-
Cost of net financial debt	0.2	0.3	0.3
Exchange hedging instruments	-0.3	-	-
Repayment of short-term financial debt (net)	-	-	-3.1
Repayment of other debt	-3.0	-6.3	-3.1
Treasury stock purchases and sales	0.1	-5.6	-5.2
Cash flow from financing activities (c)	**-6.0**	**-9.6**	**-10.9**
Net change in cash position (d = a+b+c)	**1.2**	**-10.5**	**-13.0**
Net exchange rate differences	0.8	NS	0.1
Cash and cash equivalents at period-start	**83.5**	**83.5**	**73.1**
Cash and cash equivalents at period-end	**85.5**	**73.1**	**60.1**
Other current financial assets	37.0	33.1	36.2
Cash, cash equivalents and other current financial assets at period-end	**122.5**	**106.2**	**96.4**

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