

2013 third-quarter earnings

R&D investments maintained, operational balance preserved

Key Accounts back to growth in 2015

Consolidated accounts ⁽¹⁾ IFRS (€M)	Q3 2012	Q3 2013	Change Q3/Q3	9 months 2012	9 months 2013	Change.
Revenues	72.4	55.4	-23%	207.5	174.7	-16%
Gross margin	35.2	28.0	-20%	104.8	89.0	-15%
% of revenues	48.6%	50.6%		50.5%	50.9%	
Income from ordinary operations	8.3	2.2	-73%	25.0	5.1	-79%
% of revenues	11.5%	4.0%		12.1%	2.9%	
EBIT	8.2	2.2	-73%	24.7	5.1	-79%
% of revenues	11.4%	4.0%		11.9%	2.9%	
Net income (Group share)	5.7	0.1	-98%	19.9	1.2	-94%
% of revenues	7.8%	0.2%		9.6%	0.8%	
Earnings per share ⁽²⁾	0.44	0.01		1.56	0.11	
Diluted earnings per share	0.42	0.01		1.50	0.10	
Net cash	89.1	81.0	-9%	89.1	81.0	+5%

(1) Consolidated earnings for 2012 include senseFly from the fourth quarter of 2012.

(2) Accounting number of shares: 12,702,656; diluted number of shares: 13,423,638.

2013 third-quarter business

Over the period, Parrot recorded 55.4 million euros in consolidated revenues, 23% lower than the third quarter of 2012. Compared with the second quarter of 2013, revenues are down 10%, in line with the usual seasonality.

During the third quarter, Retail Products represented 46% of the Group's revenues (versus 47% in Q3 2012), with Key Account products coming in at 54% (versus 53% in Q3 2012).

Key Accounts

In the third 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 30.0 million euros, compared with 38.4 million euros for the third quarter of 2012, down 22%, in line with the trends seen since the fourth quarter of 2012 (general automotive industry environment, contraction for previous-generation solutions, end of an exceptional contract).

The new connected car infotainment range is gradually taking over: the first solutions designed by Parrot for Volvo and McLaren and the developments linked to the six other solutions to be produced in 2014 and 2015 are continuing to move forward. All combined, they represent 8% of Key Account revenues for the period.

On the infotainment market, Parrot also signed a new development contract for the Asian market during. This initial customer base has been built up rapidly, confirming the relevance of the commercial approach and technologies developed by Parrot and validates a return to growth for Key Account activities in 2015.

Retail

In the third quarter of 2013, Retail revenues (grouping together aftermarket installed handsfree systems, Plug & Play, Multimedia and Other products) came to 25.4 million euros, down 25% compared with the third quarter of 2012 (34.0 million euros). For reference, the third quarter of 2012 had benefited from the commercial launch of the Parrot Zik (headphones, Multimedia range). During the first nine months of 2013, Retail revenues saw a limited contraction, dropping by only 4%.

Over the period, revenues from Retail automotive products totaled 11.1 million euros, versus 15.2 million euros for the third quarter of 2012, in line with the expectations for orders announced in the second quarter of 2013.

Multimedia products generated 13 million euros in revenues, down 25% year-on-year compared with the third quarter of 2012, temporarily affected by an unfavorable basis for comparison: Parrot Zik's sales were launched in the third quarter of 2012. Compared with the previous quarters in 2013, Parrot AR.Drone 2 and Zik sales have continued to progress.

Gross margin

Parrot achieved a gross margin of 50.6%, compared with 48.6% for the third quarter of the previous year. The gross margin rate has continued to benefit from various exceptional marketing operations.

EBIT

During the third quarter, EBIT came to 2.2 million euros, giving an operating margin of 4.0%. Parrot is continuing to allocate the maximum level of resources to support its expansion on the infotainment market, as well as related high-potential markets, while continuing to innovate in the Retail sector, securing its future growth.

During the third quarter of this year, operating expenses totaled 26 million euros, down 1.1 million euros compared with the same period the previous year and 3.1 million euros in relation to the second quarter of 2013. The changes in the main cost items were as follows:

- R&D spending came to 11.5 million euros (21% of revenues), an increase of 25% versus the third quarter of 2012. Compared with the second quarter of 2013, spending levels are up 0.3 million euros, notably reflecting the resources deployed for acquiring new Key Account Infotainment customers.
- Sales and marketing spending, at 8.3 million euros (15% of revenues), is down 27% in relation to the third quarter of 2012: no products were launched during the period.
- General costs came to 3.2 million euros (6% of revenues), with production and quality-related costs representing 2.8 million euros (5% of revenues), stable on an annual and quarterly basis excluding the extension of the scope linked to senseFly.

At September 30, 2013, the Group's workforce represented 839 people, compared with 845 at June 30, 2013. R&D teams make up over 50% of the workforce. In addition, the Group employs 59 external contractors (compared with 51 at June 30, 2013).

Net income

Financial income and expenses for the third quarter include a negative conversion effect (US dollar / Euro) of 1.3 million euros. Investment income, net of the cost of debt, contributed 0.2 million euros, while the tax expense for the quarter came to 1.1 million euros.

In this way, net income (Group share) came to 0.1 million euros, representing 0.01 euros per share for the third quarter of 2013.

Cash flow and balance sheet at September 30, 2013

At September 30, 2013, Parrot had 81.0 million euros in net cash, compared with 81.2 million euros at December 31, 2012. During the quarter, investing cash flow, focused primarily on capitalized R&D, was brought down to 2.1 million euros, compared with 6.6 million euros for the same period the previous year.

In addition, Parrot has continued moving forward with its share buyback program (2.9 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 cancellation of shares. At September 30, 2013, Parrot held 4.9% of its capital.

At September 30, 2013, net inventories represented 29.4 million euros (versus 43.6 million euros at December 31, 2012), in line with the stock reduction plan. Trade receivables reached 38.6 million euros (versus 50.9 million euros at December 31, 2012), with 31.5 million euros in trade payables (versus 43.4 million euros at December 31, 2012).

The Group's shareholders' equity represents 184.8 million euros (versus 188.5 million euros at December 31, 2012), in view of a capital reduction following the cancellation of 200,000 treasury shares on May 15, 2013. Net assets per share come out at 14.5 euros.

Outlook

For the fourth quarter of 2013, Parrot is forecasting a lower level of Key Account invoicing linked to the stocking policies applied by its customers. As usual, the end-of-year holiday period will be supported by various marketing actions. Sales of Multimedia products will be decisive with a view to achieving the full-year objective for Retail revenues to stabilize.

Since 2009, Parrot has been planning ahead for major technological transformations, focusing its strategy on three key opportunities. With this in mind, Parrot is continuing to move forward with its key investments and allocating the resources required for its success. Today, the Group is well positioned to capitalize on a new wave of innovation, based around the following expectations:

- **In-car infotainment:** digitalization of vehicles through smartphone connectivity and progress with 4G. With this in mind, Parrot has designed a full infotainment offering, with a range of Retail products (Parrot Asteroid) and a dedicated proprietary platform for Key Accounts;
- **Connected multimedia objects:** following the success of the Parrot Zik and Parrot AR.Drone, in November 2013 Parrot released the Parrot Flower Power (retail price: €49 / \$59), a low-energy Bluetooth sensor that measures the health of plants in real time, providing guidance to help care for them. Other products will be presented at the 2014 CES in January;
- **Expansion of the commercial drone market:** recognized worldwide thanks to its Retail sales of the Parrot AR.Drone, the Group has positioned itself on the commercial segment through its subsidiary senseFly, which is developing rapidly.

Next financial dates

- November 22nd – 23rd, 2013: Salon Actionaria show, Booth F57 (Palais des Congrès, Paris)
- January 9th – 10th, 2014: Oddo MidCap Forum (Lyon, France)
- January 14th – 16th, 2014: Needham Annual Growth Conference (New York, USA)
- February 27th, 2014: 2013 annual results presentation, investor and analyst meeting.

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.ar drone.com / www.parrotoem.com

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APPENDICES

The consolidated accounts were approved by the Board of Directors on November 14th, 2013. Consolidated earnings for 2012 include senseFly from the fourth quarter of 2012. The acquisitions are included in Key Account revenues.

➤ Breakdown of revenues by product

Consolidated accounts - IFRS (€M and % of Group revenues)	Q3 2012		Q3 2013		9 months 2012		9 months 2013	
Installed handsfree systems	12.8	18%	7.2	13%	44.1	21%	37.1	17%
Plug & Play products	2.4	3%	2.2	4%	7.7	4%	9.3	5%
Multimedia products ⁽¹⁾	17.0	24%	13.0	23%	31.5	15%	33.7	19%
Other ⁽²⁾	1.7	2%	1.3	2%	5.1	2%	5.0	3%
Total Retail revenues	34.0	47%	25.4	47%	88.3	43%	85.1	49%
Total Key Account revenues	38.4	53%	30.0	53%	119.2	57%	89.5	51%
Group total	72.4	100%	55.4	100%	207.5	100%	174.6	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)	Q3 2012		Q3 2013		9 months 2012		9 months 2013	
EMEA	20.9	29%	16.0	29%	62.7	30%	55.8	32%
United States	7.9	11%	5.5	10%	15.5	7%	15.7	9%
Asia	5.1	7%	4.0	7%	10.1	5%	13.5	8%
Total Retail revenues	34.0	47%	25.4	46%	88.3	43%	85.1	49%
Total Key Account revenues	38.4	53%	30.0	54%	119.2	57%	89.5	51%
Group total	72.4	100%	55.4	100%	207.5	100%	174.6	100%

➤ Condensed income statement

Consolidated accounts - IFRS (€M)	Q3 2012	Q3 2013	9 months 2012	9 months 2013
Revenues	72.4	55.4	207.5	174.7
Gross margin	35.2	28.0	104.8	89.0
% of revenues	48.6%	50.6%	50.5%	50.9%
Research and development costs	9.2	11.5	28.3	35.2
% of revenues	12.7%	20.8%	13.6%	20.2%
Sales and marketing costs	11.3	8.3	32.9	29.5
% of revenues	15.7%	14.9%	15.8%	16.9%
General and administrative costs	3.5	3.2	10.7	10.6
% of revenues	4.9%	5.9%	5.2%	6.1%
Production and quality costs	2.8	2.8	7.9	8.5
% of revenues	3.9%	5.1%	3.8%	4.9%
Income from ordinary operations	8.3	2.2	25.0	5.1
% of revenues	11.5%	4.0%	12.1%	2.9%
EBIT	8.2	2.2	24.7	5.1
% of revenues	11.4%	4.0%	11.9%	2.9%
Cost of net financial debt	0.2	0.2	0.4	0.5
Other financial income and expenses	-1.0	-1.3	-0.3	-0.9
Share in income from equity affiliates	0.0	0.0	-0.1	0.0
Corporate income tax	-1.8	-1.1	-4.8	-3.6
Net income (Group share)	5.7	0.1	19.9	1.3
% of revenues	7.8%	0.2%	9.6%	0.8%
Minority interests	-	0	-	-0.2
Net income	-	0.1	-	1.1
