

## 2014 first-quarter earnings

Operating expenditure adapted for an upturn in growth in 2014

Presentation of the new retail drone and developments for commercial and civil drones

Consolidated accounts <sup>(1)</sup> IFRS (€M)	Q1 2013	Q1 2014	Change Q1/Q1	Q4 2013	FY 2013
<b>Revenues</b>	<b>57.4</b>	<b>47.9</b>	<b>-17%</b>	<b>60.5</b>	<b>235.1</b>
<b>Gross margin</b>	<b>29.7</b>	<b>23.9</b>	<b>-20%</b>	<b>29.3</b>	<b>118.3</b>
% of revenues	51.7%	49.8%		48.5%	50.3%
<b>Income from ordinary operations</b>	<b>0.6</b>	<b>-3.6</b>	<b>-649%</b>	<b>1.1</b>	<b>6.3</b>
% of revenues	1.1%	-7.4%		1.9%	2.7%
<b>EBIT</b>	<b>0.6</b>	<b>-3.3</b>	<b>-603%</b>	<b>0.9</b>	<b>6.1</b>
% of revenues	1.1%	-6.9%		1.5%	2.6%
<b>Net income (Group share)</b>	<b>0.7</b>	<b>-3.6</b>	<b>-741%</b>	<b>0.2</b>	<b>1.6</b>
% of revenues	1.2%	-7.4%		0.3%	0.7%
<b>Earnings per share <sup>(2)</sup></b>	<b>0.05</b>	<b>-0.28</b>	<b>-641%</b>	<b>0.02</b>	<b>0.12</b>
<b>Diluted earnings per share</b>	<b>0.05</b>	<b>-0.29</b>	<b>-660%</b>	<b>0.02</b>	<b>0.12</b>
<b>Net cash</b>	<b>77.8</b>	<b>72.8</b>	<b>-6.4%</b>	<b>78.7</b>	<b>78.7</b>

(1) Consolidated earnings include senseFly since the fourth quarter of 2012 and Pix4D from January 1, 2014 (both fully consolidated).

(2) Accounting number of shares: 12,675,682; diluted number of shares: 12,842,125.

### Business

First-quarter business followed on from the trends commented in the previous press release (fourth-quarter earnings on February 27, 2014). Parrot recorded 47.9 million euros in consolidated revenues, down 17% in relation to the first quarter of 2013, pending the various product launches and the ramping up of infotainment solutions. Compared with the fourth quarter of 2013, revenues are down 21%, in line with the positive seasonality for Retail product sales during the end-of-year holiday period.

During the first quarter, Retail products represented 46% of the Group's revenues (49% in Q1 2013), with Key Account solutions coming in at 54% (51% in Q1 2013).

To reflect the changes in its activities, and particularly its development in Consumer Electronics and Drones, Parrot has adopted a new financial reporting framework since the end of 2013:

- The **Automotive** business (73% of Group revenues in Q1 2014) groups together revenues from installed handsfree kits (Parrot CK and Parrot MKi range) and infotainment products (Parrot Asteroid range) sold to consumers through the distribution networks, as well as revenues from the Bluetooth, digital music and infotainment solutions sold directly to manufacturers and their OEM providers;
- The **Consumer Electronics** business (10% of Group revenues in Q1 2014) groups together revenues from the audio products (Zik, Zikmu) and plug & play products (Parrot Minikit range), as well as the connected objects (Flower Power) sold to consumers through the distribution networks and online;
- The **Drone** business (16% of Group revenues in Q1 2014) groups together revenues from sales of retail drones, sold to consumers through the distribution networks and online, as well as revenues from commercial and civil drones, sold through specialized distribution networks.

### Automotive

For the first quarter of 2014, Automotive revenues (73% of Group revenues, versus 74% in Q1 2013) contracted 17% compared with the same period the previous year to reach 35.0 million euros, consistent with the trends seen since the end of 2011. The infotainment products and solutions have continued to see steady

growth (+19% versus Q1 2013) and now make up 9% of the Group's revenues (12% of Automotive revenues), compared with 6% in Q1 2013.

Key account Automotive solutions (48% of Group revenues, versus 49% in Q1 2013) generated 23.1 million euros in revenues, similar to the levels recorded last year. The two infotainment contracts are scheduled to be brought into production during the fourth quarter, while a further four contracts are still under development and will be released in 2015. Several new prospecting initiatives are moving forward with auto industry operators in Asia, Europe and the United States, with preliminary R&D phases already underway for certain customers.

Retail Automotive products (25% of Group revenues, same level as in Q1 2013) generated 11.9 million euros in revenues: the downturn in sales of previous-generation solutions (-25%) has not yet been made up for by the ramping up of the Parrot Asteroid infotainment products (+22%).

## Consumer Electronics

For the first quarter of 2014, Consumer Electronics revenues (10% of Group revenues, versus 14% in Q1 2013) came to 4.9 million euros. The product renewals are planned for the second half of 2014. The final technological steps are being taken and the distribution agreements are gradually being put in place.

## Drones

During the first quarter of 2014, Drone revenues (16% of Group revenues, versus 12% in Q1 2013) came to 7.6 million euros, compared with 6.8 million euros for the same period the previous year (+12%). Retail drones represented 11% of the Group's revenues (and 70% of Drone revenues), with Commercial and Civil drones coming in at 5%.

During the first quarter of this year, Commercial and Civil Drone revenues climbed 184% compared with the first quarter of 2013 to 2.3 million euros (up 150% like-for-like). Further acquisitions of interests in companies from the commercial and civil drone sector (cf. press release from February 27, 2014: <http://www.parrotcorp.com/fr/communiquésdepresse>) have been announced, with the first technological and commercial synergies rapidly deployed.

More specifically, technological developments have focused on precision farming, which is expected to make up for most of the drone market in time. The first agricultural drone (senseFly's eBee Ag), which offers three types of multispectral sensors, was presented at the Paris International Agricultural Show. At this same event, Airinov also demonstrated a quad-band sensor developed with the Avignon INRA-EMMAH joint research unit (spatial resolution of up to 5cm/px). Dedicated new indexes for farms and mining and quarry operators have been incorporated into the latest generations of aerial mapping software, released for sale since January 2014.

From a commercial perspective, the distribution networks are being expanded based around Parrot's existing infrastructures, making it possible to set up sales forces in the US and Asia.

In terms of retail drones, two years since its release, the Parrot AR.Drone 2 generated 5.3 million euros in revenues (-11%). Alongside this, Parrot has just presented its latest retail drone, the Parrot Bebop, which will be released for sale in the fourth quarter of 2014. Benefiting from an excellent response in the media, the Parrot Bebop is clearly focused on video features, with proprietary autofocus and image stabilizing algorithms further strengthening the HD camera's capabilities (14 million pixels / 1080 resolution). This new retail drone also continues to offer the benefits of being lightweight and stable.

## Gross margin

For the first quarter of 2014, Parrot's gross margin came to 49.8%, compared with 51.7% for the first quarter of the previous year. The gross margin rate reflects the discontinuation of sales for end-of-life products through to the fourth quarter of 2013 and is consistent with the current product mix.

## EBIT

First-quarter EBIT came to -3.6 million euros, giving a negative operating margin, in line with the information released previously and the Group's drive to support the simultaneous and rapid expansion of all its activities. The resources allocated for finalizing the retail products to be launched during the second half of the year and the technological and commercial development of the commercial and civil drone activities account for the loss recorded, while the automotive business has remained profitable despite the transition.

First-quarter operating expenses totaled 27.4 million euros, down 1.6 million euros compared with the first quarter of 2013 and 0.8 million euros versus the fourth quarter of 2013. In 2014, operating expenses are expected to remain high: an engineer recruitment program was launched at the end of the first quarter, while the five product launches for the second half of the year will logically be supported with marketing campaigns. The return to operations breaking even depends on the success of these launches: at this stage, the development plan is in line with the Group's expectations.

In this context, the main cost items are strictly under control, with the following changes:

- R&D spending came to 11.6 million euros (24% of revenues), down 7% on the first quarter of 2013. R&D invoiced to customers represents 1.7 million euros. All the R&D for Consumer Electronics and Drones has been booked in full as expenses.
- Sales and marketing spending came to 8.8 million euros (18% of revenues), down 11% on the first quarter of 2013, in line with the schedule for launches and the seasonal trends for retail campaigns (traditionally higher in the second and fourth quarters).
- General costs totaled 3.4 million euros (7% of revenues), with 3.6 million euros in production and quality-related costs (7% of revenues). The near stability reflects the controls applied and the ability of the Group's business model to effectively drive its expansion on its new markets.

At March 31, 2014, the Group had 869 staff, compared with 845 at December 31, 2013; the change over the period is linked primarily to the full consolidation of Pix4D's teams (23 people). The R&D teams represent 52% of the workforce. In addition, the Group employs 86 external providers (versus 75 at December 31, 2013).

## Net income

Financial income and expenses for the first quarter came to 0.3 million euros, with a limited impact for foreign exchange effects (US Dollar / Euro). Investment income, net of the cost of debt, contributed 0.3 million euros, while the tax expense for the quarter came to 0.8 million euros.

In this way, net income (Group share) totaled -3.6 million euros. After factoring in minority interests (-0.2 million euros), 2014 first-quarter net income came to -3.8 million euros.

## Cash flow and balance sheet at March 31, 2014

At March 31, 2014, Parrot had 72.8 million euros in net cash, compared with 78.7 million euros at December 31, 2013. Cash flow from operations represented 1.1 million euros, while investing cash flow came to 7.7 million euros, including 2.7 million euros of long-term financial investments attributable to interests acquired in companies in the commercial and civil drone sector.

At March 31, 2014, net inventories represented 21.3 million euros (versus 24.2 million euros at December 31, 2013), pending the launch of production phases for the five new products. Trade receivables totaled 33.5 million euros (versus 39.2 million euros at December 31, 2013), with 25.7 million euros in trade payables (versus 32.7 million euros at December 31, 2013). Over the period, Parrot sought to maintain a low level of working capital (29.1 million euros, versus 48.6 million euros in Q1 2013) in order to minimize the full-year impact of the various launches.

The Group's shareholders' equity came to 180.6 million euros, compared with 183.5 million euros at December 31, 2013. This does not include the impact of the Pix4D participation which will be incorporated in the balance sheet in Q2 2014. Net assets per share represent 14.2 euros.

## Outlook

The outlook for 2014 remains unchanged. For 2014, Parrot is targeting a return to growth thanks to a high level of investment. As in 2013, resources are being allocated primarily for R&D to begin with, then marketing when the products are launched, with a view to:

- Finalizing the Consumer Electronics products presented at the 2014 CES and released from the second half of 2014;
- Continuing to move forward with developments for the infotainment contracts in the customization phase, while supporting prospecting capabilities;
- Focusing on the development of retail and commercial and civil drone activities.

Parrot is continuing to move forward with its key investments and allocating the resources required for its growth strategy. The main trends expected are as follows:

- **Automotive:** the Group is forecasting a contraction in its full-year revenues: the downturn in its historical activities, particularly in the retail sector, will be only partially offset by the new infotainment contracts set up in 2013, the two additional contracts brought into production in 2014 and the ramping up of Parrot Asteroid sales. At this stage, the main challenges concern finalizing developments for the two infotainment contracts to be delivered in 2014 on the one hand, and on the other, allocating the resources required for additional prospecting. Parrot is forecasting a return to strong growth for its automotive business in 2015. In addition, the Group is banking on its ability to sign up increasingly large contracts, with its sales teams ready to meet this challenge in 2014.
- **Consumer electronics:** the first half of the year will be focused on finalizing the two new connected toys, the Parrot Jumping Sumo and Parrot Mini Drone, which received a very positive response when they were presented at the 2014 CES. With this in mind, additional external providers and engineers will be brought on board to support the current teams. First-half sales will be generated exclusively by

the Parrot Zik, the Plug & Play products and the Parrot Flower Power. With the products launched during the second half of the year, Parrot is forecasting strong growth for its Consumer Electronics business on an annual basis.

- **Drones:** for 2014, the Group is forecasting growth in its drone business. Retail drone sales (Parrot AR.Drone 2) are expected to contract slightly, pending the release of the next version of the fun, flying connected camera. On the other hand, sales of commercial and civil drones are expected to see strong growth. Parrot, which has announced new acquisitions (cf. press release: <http://www.parrotcorp.com/fr/communiquedespresse>), has put together a portfolio of carefully selected start-ups and is encouraging technological synergies and cross-selling for its subsidiaries and partners.

**Following a year when growth will be starting up again in 2014 thanks to a sustained investment policy, Parrot is forecasting an acceleration in growth for 2015, combined with a significant improvement in profitability.**

## Next financial dates

- June 11, 2014: Parrot's general shareholders' meeting in Paris
- July 2, 2014: EnterNext Day in London
- July 31, 2014: 2014 second-quarter earnings

## ABOUT PARROT

---

Parrot also offers the most extensive range of hands-free communication systems on the market for cars. Its globally recognised 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 high-end wireless multimedia products dedicated to sound, and explores new possibilities with Bluetooth Smart technologies.

Finally, Parrot is expanding on the UAV market with the Parrot AR.Drone, the first quadricopter piloted via Wi-Fi and also with new solutions to address the UAV market for professional use.

Parrot, headquartered in Paris, currently employs more than 850 people worldwide and generates the majority of its sales overseas.

Parrot is listed on Euronext Paris since 2006. (FR0004038263 – PARRO). For more information: [www.parrot.com](http://www.parrot.com)

## CONTACTS

---

### Investors, analysts and financial media

Marie Calleux - T. : +33(0) 1 48 03 60 60  
[parrot@calyptus.net](mailto:parrot@calyptus.net)

### Technology and consumer media

Vanessa Loury - T. : +33(0) 1 48 03 60 60  
[vanessa.loury@parrot.com](mailto:vanessa.loury@parrot.com)

## APPENDICES

The consolidated accounts:

- are not audited,
- were approved by the Board of Directors on May 15, 2014,
- include senseFly since the fourth quarter of 2012 and Pix4D from January 1, 2014 (both fully consolidated).

### Breakdown of revenues by business

Consolidated accounts - IFRS (€M and % of Group revenues)	Q1 2013		Q1 2014		Q4 2013		FY 2013	
<b>Consumer Electronics</b>	<b>7.9</b>	<b>14%</b>	<b>4.9</b>	<b>10%</b>	<b>10.4</b>	<b>17%</b>	<b>29.5</b>	<b>13%</b>
Audio	3.6	6%	2.5	5%	5.6	10%	15.0	6%
Plug & Play	4.3	8%	2.0	4%	3.5	6%	13.2	6%
Connected objects and toys	-	-	0.3	1%	1.3	2%	1.3	1%
<b>Automotive</b>	<b>42.3</b>	<b>74%</b>	<b>35.0</b>	<b>73%</b>	<b>36.0</b>	<b>59%</b>	<b>162.6</b>	<b>69%</b>
Retail	14.4	25%	11.9	25%	13.7	23%	54.6	25%
Key Accounts	27.9	49%	23.1	48%	22.2	37%	107.9	43%
<b>Drone</b>	<b>6.8</b>	<b>12%</b>	<b>7.6</b>	<b>16%</b>	<b>13.8</b>	<b>23%</b>	<b>42.1</b>	<b>18%</b>
Retail	6.0	10%	5.3	11%	11.8	20%	35.8	15%
Commercial and civil	0.8	1%	2.3	5%	2.0	3%	6.3	3%
<b>Other</b>	<b>0.4</b>	<b>1%</b>	<b>0.4</b>	<b>1%</b>	<b>0.2</b>	<b>0%</b>	<b>1.0</b>	<b>0%</b>
<b>Group total</b>	<b>57.4</b>	<b>-</b>	<b>47.9</b>	<b>-</b>	<b>60.5</b>	<b>-</b>	<b>235.2</b>	<b>-</b>

### Main aggregates for each business

Consolidated accounts - IFRS (€M)	Consumer Electronics	Automotive	Drone	Other
<b>Q1 2014</b>				
<b>Revenues</b>	<b>4.9</b>	<b>35.0</b>	<b>7.6</b>	<b>0.4</b>
<b>Income from ordinary operations</b>	<b>-2.4</b>	<b>0.8</b>	<b>-1.4</b>	<b>-0.5</b>
% of revenues	-49%	2.0%	-18%	NS
<b>FY 2013</b>				
<b>Revenues</b>	<b>29.5</b>	<b>162.6</b>	<b>42.1</b>	<b>1.0</b>
<b>Income from ordinary operations</b>	<b>-5.8</b>	<b>14.3</b>	<b>0.1</b>	<b>-2.4</b>
% of revenues	-19.7%	8.8%	0.4%	NS

### Condensed income statement

Consolidated accounts - IFRS (€M)	Q1 2013	Q1 2014	Q4 2013	FY 2013
<b>Revenues</b>	<b>57.4</b>	<b>47.9</b>	<b>60.5</b>	<b>235.1</b>
<b>Gross margin</b>	<b>29.7</b>	<b>23.9</b>	<b>29.3</b>	<b>118.3</b>
% of revenues	51.7%	49.8%	48.5%	50.3%
<b>Research and development costs</b>	<b>-12.5</b>	<b>-11.6</b>	<b>-10.4</b>	<b>-45.6</b>
% of revenues	21.8%	24.2%	17.2%	19.4%
<b>Sales and marketing costs</b>	<b>-9.9</b>	<b>-8.8</b>	<b>-10.5</b>	<b>-40.0</b>
% of revenues	17.3%	18.4%	17.4%	17.0%
<b>General and administrative costs</b>	<b>-3.6</b>	<b>-3.4</b>	<b>-3.8</b>	<b>-14.5</b>
% of revenues	6.3%	7.2%	6.4%	6.2%
<b>Production and quality costs</b>	<b>-3.0</b>	<b>-3.6</b>	<b>-3.4</b>	<b>-11.9</b>
% of revenues	5.2%	7.5%	5.7%	5.1%
<b>Income from ordinary operations</b>	<b>0.6</b>	<b>-3.6</b>	<b>1.1</b>	<b>6.3</b>
% of revenues	1.1%	-7.4%	1.9%	2.7%
<b>EBIT</b>	<b>0.6</b>	<b>-3.3</b>	<b>0.9</b>	<b>6.1</b>
% of revenues	1.1%	-6.9%	1.5%	2.6%
<b>Financial income / expense</b>	<b>1.1</b>	<b>0.3</b>	<b>0.2</b>	<b>-0.3</b>
Share in income from equity affiliates	-	-	-0.2	-0.2
Corporate income tax	-1.2	-0.9	-0.8	-4.4
Minority interests	-	-0.2	-0.2	-0.4
<b>Net income (Group share)</b>	<b>0.7</b>	<b>-3.6</b>	<b>0.2</b>	<b>1.6</b>
% of revenues	1.2%	-7.6%	0.3%	0.7%