

2014 second-quarter earnings

Operating expenditure adapted for an upturn in growth in 2014

Commercial launch of two retail MiniDrones

New Key Account infotainment contract signed

Consolidated accounts ⁽¹⁾ IFRS (€M)	Q1 2014	Q2 2013	Q2 2014	H1 2013	H1 2014
Revenues	47.9	61.8	51.9	119.2	99.9
Gross margin	23.9	31.2	28.1	60.9	52.0
<i>% of revenues</i>	<i>49.8%</i>	<i>50.5%</i>	<i>54.1%</i>	<i>51.1%</i>	<i>52.0%</i>
Income from ordinary operations	-3.6	2.3	-1.9	2.9	-5.4
<i>% of revenues</i>	<i>-7.4%</i>	<i>3.7%</i>	<i>-3.6%</i>	<i>2.5%</i>	<i>-5.4%</i>
EBIT	-3.3	2.3	-1.9	2.9	-5.1
<i>% of revenues</i>	<i>-6.9%</i>	<i>3.7%</i>	<i>-3.6%</i>	<i>2.5%</i>	<i>-5.2%</i>
Net income (Group share)	-3.6	0.6	-2.6	1.3	-6.3
<i>% of revenues</i>	<i>-7.4%</i>	<i>0.9%</i>	<i>-5.1%</i>	<i>1.1%</i>	<i>-6.3%</i>
Earnings per share⁽²⁾	-0.28	0.05	-0.21	0.10	-0.49
Diluted earnings per share	-0.29	0.04	-0.21	0.09	-0.49
Net cash	72.8	74.7	67.6	74.7	67.6

(1) Consolidated earnings include Pix4D from January 1st, 2014 (fully consolidated).

(2) Accounting number of shares: 12,704,284; diluted number of shares: 12,704,284.

Business

A key milestone has been passed with a view to achieving the objectives for growth in 2014 thanks to the finalization of the design phase for the MiniDrones, quickly followed by international marketing operations (Europe, Asia, United States) before their commercial launch in July 2014. The media coverage and response from retailers have been largely positive for these two new drones which are aimed firmly at consumers (MiniDrone Jumping Sumo: 159 euros incl. VAT; MiniDrone Rolling Spider: 99 euros incl. VAT).

During the second quarter, Parrot signed a new infotainment contract with a European auto industry customer. In total, Parrot now has nine contracts with manufacturers that have chosen its Android-based infotainment solutions. Other prospecting operations are underway with auto industry firms in Asia, Europe and the United States.

During this second quarter, Parrot recorded 51.9 million euros in consolidated revenues, down 16% on the second quarter of 2013, pending the various product launches and the ramping up of infotainment solutions. The second quarter marked the end of the downturn trend, with revenues coming in 8% higher than the first quarter of 2014, buoyed by sales of Key Account infotainment solutions and the rapid ramping up of the commercial and civil drone activities. Business is in line with the Group's expectations.

Retail products made up 45% of the Group's revenues (50% in Q2 2013), representing 23.2 million euros, with Key Account solutions generating 55% of the Group's revenues (50% in Q2 2013), representing 28.8 million euros. Compared with the first quarter of 2014, Retail revenues are up 5%, with 12% growth for Key Account revenues.

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

- The **Automotive** business (69% of Group revenues in Q2 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 **Drone** business (20% of Group revenues in Q2 2014) groups together revenues from retail drone sales to consumers through the distribution networks and online, as well as revenues from commercial and civil drones, distributed directly or through specialists.
- The **Connected Devices** business (10% of Group revenues in Q2 2014) groups together revenues from the audio products (Zik, Zikmu) and plug & play products (Parrot Minikit range), as well as Flower Power, sold through the distribution networks and online.

Automotive

For the second quarter of 2014, Automotive revenues (69% of Group revenues, versus 75% in Q2 2013) came to 35.9 million euros, down 22% compared with the same period the previous year. Compared with the first quarter of 2014, Automotive revenues are up 3%. Infotainment products and solutions have continued to see steady growth (+14% versus Q2 2013) and now make up 9% of the Group's revenues and 14% of Automotive revenues.

Key Account Automotive solutions (69% of revenues for the business, versus 64% in Q2 2013) generated 24.9 million euros in revenues, close to the levels for the previous quarter. Two infotainment contracts are still scheduled to be brought into production during the fourth quarter, while a further four contracts are under development and will be released in 2015.

Parrot has also joined the Open Automotive Alliance (OAA), the main coalition of technology companies and auto industry leaders set in motion by Google to bring the Android platform to cars. Parrot, the only European tech firm present in the alliance, has joined the OAA's founding members (Audi, GM, Google, Honda, Hyundai and Nvidia) and around 40 other prestigious names from the automotive industry.

Retail Automotive products (31% of revenues for the business, versus 36% in Q2 2013) generated 10.9 million euros in revenues, close to the levels for the previous quarter.

Drones

During the second quarter of 2014, Drone revenues (20% of Group revenues, versus 15% in Q2 2013) came to 10.5 million euros, compared with 9.4 million euros for the same period the previous year (+12%). Retail Drones represented 68% of revenues for the business, with Commercial and Civil Drones coming in at 32%.

During the second quarter of this year, Commercial and Civil Drone revenues climbed 117% compared with the second quarter of 2013 to reach 3.4 million euros (+97% like-for-like). Following the launch of the "eBee AG", focused on the needs of large-scale farming operations, in the first quarter, the "eBee RTK" was presented in June and will be released for sale at the end of the summer. It offers high-precision aerial mapping solutions for civil engineering and topography professionals. The commercial and civil drone teams are also continuing to focus on expanding their distributor base and optimizing production processes.

In terms of Retail Drones, two years since its release, the Parrot AR.Drone 2 generated 7.1 million euros in revenues (-10% versus Q2 2013). Work to finalize the development of the Parrot BeBop Drone (new generation AR.Drone) is moving forward. Two new products have also joined the range: the MiniDrones. Following an intense global launch campaign, the MiniDrones began their commercial deployment in July and will make significant contributions to ensure the resumption of growth for the Retail Drone business from the third quarter of 2014.

Connected Devices

During the second quarter of 2014, revenues for Connected Devices (10% of Group revenues, equivalent to Q2 2013) came to 5.1 million euros (versus 5.9 million euros in Q2 2013). Compared with the first quarter of 2014, sales of Connected Devices show an increase of 3%. The product renewals are planned for the second half of 2014. The technological developments are currently being finalized and the distribution agreements are gradually being put in place.

Gross margin

For the second quarter of 2014, Parrot's gross margin came to 54.1%, compared with 50.5% for the second quarter of the previous year. The gross margin rate has benefited in particular from the ramping up of commercial and civil drones, as well as the good level of margins on the older products.

EBIT

Second-quarter EBIT came to -1.9 million euros, 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.

Second-quarter operating expenditure totaled 29.9 million euros, up 1.0 million euros compared with the second quarter of 2014 and 2.5 million euros versus the first quarter of 2014. This change reflects work to finalize the infotainment products and progress made with the R&D recruitment program, as well as the marketing campaigns for product launches.

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

- R&D spending came to 12.6 million euros (24% of revenues), up 12% on the second quarter of 2013, net of R&D invoiced to customers (1.8 million euros).
- Sales and marketing spending came to 9.4 million euros (18% of revenues), down 17% in relation to the second quarter of 2013, which had recorded some non-recurring costs.
- Overhead costs exceptionally came to 4.8 million euros (9% of revenues), linked to non-recurring fees. Production and quality-related costs totaled 3.2 million euros (6% of revenues), in line with current requirements.

At June 30th, 2014, the Group's workforce represented 885 people, compared with 869 at March 31st, 2014 and 845 at December 31st, 2013. R&D teams make up 53% of the workforce, with 470 people. In addition, the Group employs 99 external contractors (versus 86 at March 31st, 2013) who are temporarily providing the expertise required for the products being finalized.

Net income

Financial income and expenses for the second quarter came to 0.2 million euros, with a limited impact for foreign exchange effects (US Dollar / Euro). Investment income, net of the cost of debt, contributed 0.4 million euros, while the tax expense for the quarter came to 0.9 million euros.

In this way, net income (Group share) totaled -2.6 million euros.

Cash flow and balance sheet at June 30th, 2014

At June 30th, 2014, Parrot had 67.6 million euros in net cash (compared with 78.7 million euros at December 31st, 2013). Cash flow from operations represented -2.0 million euros, while investing cash flow came to -10.3 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 June 30th, 2014, net inventories represented 18.5 million euros (versus 24.2 million euros at December 31st, 2013), pending the launch of the five new products. Trade receivables totaled 41.2 million euros (versus 39.2 million euros at December 31st, 2013), with 28.3 million euros in trade payables (versus 32.7 million euros at December 31st, 2013). Over the period, Parrot sought to maintain a low level of working capital (31.4 million euros, versus 46.3 million euros in Q2 2013) in order to minimize the full-year impact of the various launches.

The Group's shareholders' equity represents 176.4 million euros (versus 183.5 million euros at December 31st, 2013), including the impact of Pix4D's consolidation, with 13.9 euros in net assets per share.

Outlook

The outlook for 2014 remains unchanged (cf. 2013 earnings release from February 27th, 2014). Parrot is targeting a return to growth thanks to a high level of investment. Resources have initially been allocated to R&D and will now be supplemented with marketing investments for the products in their launch phase, with a view to:

- Finalizing the retail products presented at the 2014 CES event 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;
- Developing the commercial and civil drone business.

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

- **September 17th, 2014:** Kepler Cheuvreux Autumn Conference (Paris)
- **October 2nd - 3rd, 2014:** Large & Mid Cap Event (Paris)
- **November 6th, 2014:** Natixis Technology Conference (Paris)
- **November 15th, 2014:** 2014 third-quarter earnings

ABOUT PARROT

Parrot also offers the most extensive range of hands-free communication 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 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

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APPENDICES

The consolidated accounts:

- Have been audited (limited review) and the reports are currently being issued,
- Were approved by the Board of Directors on July 30th, 2014,
- Include senseFly from the fourth quarter of 2012 and Pix4D from January 1st, 2014 (both fully consolidated).

Breakdown of revenues by business

Consolidated accounts - IFRS (€M and % of Group revenues)	Q2 2013		Q2 2014		H1 2013		H1 2014	
Automotive	46.3	75%	35.9	69%	88.6	74%	70.9	71%
Retail	16.8	27%	10.9	21%	31.2	26%	22.9	23%
Key Accounts	29.4	48%	24.9	48%	57.3	48%	48.0	48%
Drone	9.4	15%	10.5	20%	16.2	14%	18.1	18%
Retail	7.8	13%	7.1	14%	13.8	12%	12.5	12%
Commercial and civil	1.6	3%	3.4	6%	2.3	2%	5.6	6%
Connected devices	5.9	10%	5.1	10%	13.9	12%	10.0	10%
Audio	3.0	5%	2.2	4%	6.6	6%	4.7	5%
Plug & Play	2.8	5%	2.5	5%	7.1	6%	4.5	5%
Other connected devices	0.1	0%	0.3	0%	0.2	0%	0.7	0%
Other	0.2	0%	0.5	1%	0.6	1%	0.9	1%
Group total	61.8	-	51.9	-	119.2	-	99.9	-

Main aggregates for each business

Consolidated accounts - IFRS (€M)	Connected devices	Automotive	Drone	Other
Q2 2014				
Revenues	5.1	35.9	10.5	0.5
Income from ordinary operations	-1.6	1.1	-1.0	-0.5
<i>% of revenues</i>	-32%	3%	-10%	NS
Q1 2014				
Revenues	4.9	35.0	7.6	0.4
Income from ordinary operations	-2.4	0.8	-1.4	-0.5
<i>% of revenues</i>	-49%	2%	-18%	NS

Condensed income statement

Consolidated accounts - IFRS (€M)	Q2 2013	Q2 2014	H1 2013	H1 2014
Revenues	61.8	51.9	119.2	99.9
Gross margin	31.2	28.1	60.9	52.0
<i>% of revenues</i>	50.5%	54.1%	51.1%	52.0%
Research and development costs	11.2	12.6	23.7	24.2
<i>% of revenues</i>	18.1%	24.2%	19.9%	24.2%
Sales and marketing costs	11.3	9.4	21.2	18.2
<i>% of revenues</i>	18.3%	18.1%	17.8%	18.2%
Administrative costs and overheads	3.7	4.8	7.4	8.2
<i>% of revenues</i>	6.1%	9.3%	6.2%	8.2%
Production and quality costs	2.7	3.2	5.7	6.8
<i>% of revenues</i>	4.4%	6.1%	4.8%	6.8%
Income from ordinary operations	2.3	-1.9	2.9	-5.4
<i>% of revenues</i>	3.7%	-3.6%	2.5%	-5.4%
EBIT	2.3	-1.9	2.9	-5.1
<i>% of revenues</i>	3.7%	-3.6%	2.5%	-5.1%
Financial income / expense	-0.5	0.2	0.6	0.6
Share in income from equity affiliates	NS	-	NS	-
Corporate income tax	-1.3	0.9	-2.5	-1.8
Minority interests	-0.1	0.1	-0.2	-0.1
Net income (Group share)	0.5	-2.6	1.1	-6.3
<i>% of revenues</i>	0.8%	-5.1%	1.0%	-6.3%

➤ Consolidated balance sheet

Consolidated accounts - IFRS (€M)	Jun 30, 2013	Dec 31, 2013	Jun 30, 2014
Non-current assets	84.8	85.8	93.5
Goodwill	41.6	38.7	39.6
Other intangible assets	29.3	33.4	39.9
Property, plant and equipment	8.9	7.5	7.2
Non-current financial assets	1.9	1.7	
Investments in associates	1.1	2.4	5.0
Deferred tax assets	2.0	2.0	1.8
Current assets	195.4	192.8	181.8
Inventories	32.0	24.2	18.5
Trade receivables	41.0	39.2	41.2
Other receivables	26.0	31.3	33.0
Other current financial assets	36.2	42.7	25.6
Cash and cash equivalents	60.2	55.4	63.5
TOTAL ASSETS	280.2	278.6	275.4

Consolidated accounts - IFRS (€M)	Jun 30, 2013	Dec 31, 2013	Jun 30, 2014
Shareholders' equity			
Share capital	1.9	1.9	1.9
Issue and contribution premiums	49.7	49.8	50.3
Reserves excluding earnings for the period	134.0	131.3	131.4
Earnings for the period - Group share	1.3	1.6	-6.3
Exchange gains or losses	0.4	-1.1	-0.9
Equity attributable to Parrot SA shareholders	187.3	183.5	176.4
Minority interests	-0.4	-0.6	-0.7
Non-current liabilities	35.3	30.4	32.8
Non-current financial liabilities	15.3	11.9	8.7
Pension provisions and related commitments	1.8	1.7	1.9
Deferred tax liabilities	0.2	0.2	,0
Other non-current provisions	1.6	1.6	1.7
Other non-current liabilities	16.5	14.7	20.5
Current liabilities	58.0	65.3	66.9
Current financial liabilities	6.3	7.6	12.8
Current provisions	8.0	8.3	7.6
Trade payables	26.7	32.7	28.3
Current tax liability	2.0	2.0	2.1
Other current liabilities	14.9	14.2	16.2
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	280.2	278.6	275.4

➤ Cash-flow statement

Consolidated accounts - IFRS (€M)	Jun 30, 2013	Dec 31, 2013	Jun 30, 2014
CASH FLOW FROM OPERATIONS			
Earnings for the period	1.1	1.2	-6.5
Share in income from equity affiliates	NS	0.2	
Depreciation and amortization	3.8	9.7	5.9
Capital gains and losses on disposals	0.2	0.7	NS
Remeasurement of investments previously classed as equity affiliates	-	-	-0.7
Tax charges	2.5	4.4	1.7
Cost of share-based payments	2.2	3.1	1.3
Cost of net financial debt	-0.3	-0.6	-0.5
Cash flow from operations before tax and cost of net financial debt	9.4	18.7	1.3
Change in working capital	-3.7	10.6	-3.4
Tax paid	0.1	-5.7	0.1
Net cash from operating activities (a)	5.8	23.6	-2.0
INVESTING CASH FLOW			

Acquisition of intangible assets, property, plant and equipment	-7.6	-15.9	-8.2
Acquisition of subsidiaries, net of cash acquired	-	-	-0.5
Acquisition of long-term financial investments	-0.3	-1.5	-2.7
Disposal of long-term financial investments	NS	NS	0.1
Cash flow from investment activities (b)	-7.9	-17.4	-10.3
FINANCING CASH FLOW			
Equity contributions	0.2	0.3	0.5
Receipts linked to new loans	NS	-	-
Cash invested for over 3 months	-	-9.6	17.1
Cost of net financial debt	0.3	0.6	0.5
Exchange hedging instruments	-	-	-
Repayment of short-term financial debt (net)	-3.1	-	-
Repayment of other financing	-3.1	-6.4	-3.1
Treasury stock purchases and sales	-5.2	-8.4	-0.2
CASH FLOW FROM FINANCING ACTIVITIES (c)	-10.9	-23.5	14.7
Net change in cash position (d = a+b+c)	-13.0	-17.2	2.5
Net exchange rate differences	0.1	-1.6	0.4
Cash and cash equivalents at period-start	73.1	73.1	54.3
Cash and cash equivalents at period-end	60.1	54.3	57.2
Other current financial assets	36.2	42.7	25.6
Cash, cash equivalents and other current financial assets at period-end	96.4	96.9	82.8
