

2014 third-quarter earnings

Growth resumed: +15%

Drone revenues ramped up strongly: +130%

Consolidated accounts ⁽¹⁾ IFRS (€M)	Q1 2014	Q2 2014	Q3 2014	Q3 2013	Year-on-year change
Revenues	47.9	51.9	63.6	55.4	+15%
Gross margin	23.9	28.1	33.9	28.0	+21%
<i>% of revenues</i>	<i>49.8%</i>	<i>54.1%</i>	<i>53.2%</i>	<i>50.6%</i>	
Income from ordinary operations	-3.6	-1.9	1.0	2.2	-54%
<i>% of revenues</i>	<i>-7.4%</i>	<i>-3.6%</i>	<i>1.6%</i>	<i>4.0%</i>	
EBIT	-3.3	-1.9	1.0	2.2	-54%
<i>% of revenues</i>	<i>-6.9%</i>	<i>-3.6%</i>	<i>1.6%</i>	<i>4.0%</i>	
Net income (Group share)	-3.6	-2.6	0.7	0.1	+550%
<i>% of revenues</i>	<i>-7.4%</i>	<i>-5.1%</i>	<i>1.2%</i>	<i>0.2%</i>	
Earnings per share ⁽²⁾	-0.28	-0.21	0.06	0.01	NS
Diluted earnings per share	-0.29	-0.21	0.06	0.01	NS
Net cash	72.8	67.6	68.2	81.0	-16%

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

(2) Accounting number of shares: 12,705,016; diluted number of shares: 12,705,016.

Business

The third quarter saw a return to growth, with consolidated revenues up 15% compared with the third quarter of 2013 to 63.6 million euros. Retail products represented 59% of these revenues (45% in Q3 2013), with 37.7 million euros (+51%), while Key Account solutions generated 41% (55% in Q3 2013), with 25.9 million euros (-15%). Revenues for the first nine months came to 163.5 million euros, with a year-on-year change of -6%, compared with -17% at the end of the first half of the year.

The Drone business is accelerating strongly, supported by the wider range of Drones offered by Parrot. Following the gradual launch of the two MiniDrones - which are already making a significant contribution to revenues - from August 2014, the Parrot Bebop has also been finalized and is scheduled for release from November 2014. On the other hand, the Automotive business has continued to be held back by the slow pace of this industry's move to comprehensive, modern infotainment platforms.

Automotive

For the third quarter of 2014, Automotive revenues (49% of Group revenues, versus 69% in Q3 2013) came to 31.1 million euros, down 18% compared with the same period the previous year. Two infotainment contracts scheduled to be brought into production at the end of the year have been put back to 2015. In total, Parrot's infotainment offer has been selected by nine brands worldwide and the business has continued to be profitable (3% operating margin).

The emergence of the connected car is driving far-reaching changes within the auto industry, as well as in terms of driver habits. While ensuring the continued profitability of its Automotive business, Parrot is moving forward with its strategy to bring new manufacturers on board and support them with their research stages for innovative solutions. With this in mind, an alliance was set up in September 2014 between Renault and Parrot to develop the infotainment platform for the concept car EOLAB based on Parrot's SOCA solution. EOLAB is fitted with a range of innovations that will gradually be industrialized from 2016 to 2022. This partnership once again highlights Parrot's technological capabilities, as well as the timeframes involved with modernizing automotive platforms.

Drones

During the third quarter of 2014, Drone revenues (44% of Group revenues, versus 22% in Q3 2013) came to 27.7 million euros, compared with 12.1 million euros for the same period the previous year (+130%). Retail Drones represented 87% of revenues for the business, with Commercial and Civil Drones generating 13%. This business line's dynamic commercial development has enabled it to achieve positive operating income (6% operating margin).

Retail Drone revenues totaled 24.2 million euros for the third quarter, up 139% thanks to the two new mini drones launched (Jumping Sumo MiniDrone: 159 euros incl. VAT; Rolling Spider MiniDrone: 99 euros incl. VAT). The finalization of the Parrot Bebop Drone's development has also been confirmed, with its commercial launch announced for November 2014. The Parrot Bebop Drone will be available for 499 euros including VAT for the basic version, with two batteries included, and 899 euros including VAT with the "skycontroller" bundle, which increases its flying range. Parrot now has an extensive selection of retail drones in place, with four products geared towards different customer segments.

In the third quarter, Commercial and Civil Drone revenues climbed 82% compared with the third quarter of 2013 to reach 3.5 million euros (+54% like-for-like). The new commercial drone eXom, a quadricopter that came about in particular thanks to the technological synergies established between Parrot and its subsidiary senseFly, was unveiled at the start of October and will be released in 2015. Alongside this, Parrot has acquired a new minority interest, based on a 2 million dollar capital increase, in an American company specialized in sensors and big data: MicaSense. This investment is in line with Parrot's strategy to bring on board additional areas of expertise within the ecosystem for commercial and civil drones with a view to developing a range of leading-edge solutions focused on three priority markets: mapping, agriculture and inspection.

Connected Devices

During the third quarter of 2014, revenues for Connected Devices (7% of Group revenues, versus 10% in Q3 2013) came to 4.3 million euros (versus 5.2 million euros in Q3 2013). The product renewals scheduled for the second half of 2014 have been confirmed with this autumn's launch of the MINIKIT Neo 2 HD (Plug & Play) and the new Parrot Zik 2.0 headphones (Audio), which will both be available for the end-of-year holiday period.

Gross margin

In the third quarter of 2014, Parrot recorded a gross margin of 53.2%, compared with 50.6% for the third quarter of the previous year. The progress made with the Group's gross margin rate reflects the ramping up of the Drone business, as well as the good level of margins for other activities.

EBIT

Third-quarter EBIT came to 1.0 million euros, in line with the information released previously and the Group's drive to support the expansion of all its activities. The resources allocated for finalizing various products have paved the way for the many launches seen since the start of the second-half period (Jumping Sumo, Rolling Spider, BeBop, MINIKIT Neo 2, Zik 2, senseFly eXom).

Operating expenditure totaled 32.8 million euros for the third quarter, up 7.0 million euros compared with the third quarter of 2013 and 2.9 million euros versus the second quarter of 2014. This change factors in the development of infotainment solutions, the finalization of R&D recruitments and the new products launched, with the corresponding marketing campaigns.

The changes in the main cost items were as follows:

- R&D spending came to 13.3 million euros (21% of revenues), an increase of 15% versus the third quarter of 2013. R&D invoiced to customers in connection with customization phases for infotainment solutions represented 1.8 million euros.
- Sales and marketing spending came to 12.2 million euros (19% of revenues), up 48% versus the third quarter of 2013, in line with the launches over the period.
- Overhead costs came to 4.0 million euros (6% of revenues), while production and quality-related costs totaled 3.4 million euros (5% of revenues), in line with the Group's current requirements.

At September 30th, 2014, the Group's workforce represented 923 people, compared with 885 at June 30th, 2014. Recruitments have focused primarily on the R&D teams, which make up 52% of the workforce, with 478 people, as well as sales and marketing (211 people). In addition, the Group employs 93 external contractors (versus 99 at June 30th, 2014) who are temporarily providing the expertise required for the products being finalized.

Net income

Financial income and expenses for the third quarter came to 0.7 million euros, factoring in the US dollar's appreciation. The tax expense for the quarter was 1.1 million euros. Net income therefore represents 0.6 million euros, with 0.7 million euros for the Group share and -0.1 million euros for minority interests.

Cash flow and balance sheet

At September 30th, 2014, Parrot had 68.2 million euros in net cash, compared with 67.6 million euros at June 30th, 2014. Cash flow from operations represented 2.2 million euros, while investing cash flow relating to new products came to -4.3 million euros.

At September 30th, 2014, net inventories represented 21.7 million euros (versus 18.5 million euros at June 30th, 2014), in line with the product launches. Trade receivables totaled 50.7 million euros (versus 41.2 million euros at June 30th, 2014), with 38.5 million euros in trade payables (versus 28.3 million euros at June 30th, 2014). Parrot's level of working capital requirements, with 33.9 million euros for the period, is in line with requirements for the product launches.

The Group's shareholders' equity represents 180.4 million euros (versus 176.4 million euros at June 30th, 2014), taking net assets per share up to 14.2 euros.

Outlook

Parrot is targeting a return to growth in 2014, thanks to high levels of investment. Resources have initially been allocated to R&D and are now being supplemented with marketing investments, particularly for the products in their launch phase, with a view to:

- Ensuring the commercial success of the new Retail products, and particularly the wider range of Drones;
- 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 an improvement in profitability.

Financial calendar

- **January 8th – 9th, 2015:** Oddo MidCap Forum (Lyon, France)
- **January 13th – 15th, 2015:** Needham Growth Conference (New York, USA)
- **February 27th, 2015:** 2014 full-year and fourth-quarter earnings
- **May 14th, 2015:** 2015 first-quarter earnings

ABOUT PARROT

Founded in 1994 by Henri Seydoux, Parrot creates, develops and markets advanced technology wireless products for consumers and professionals.

The company builds on a common technological expertise to innovate and develop in three primary markets:

- Automotive: With the most extensive range of hands-free communication and infotainment systems for vehicles on the market.
- Civil drones: With leisure quadricopters and solutions for professional use.
- Connected objects: With a focus in audio and gardening.

Headquartered in Paris, Parrot currently employs more than 850 people worldwide and generates the majority of its sales overseas. Parrot has been listed on Euronext Paris since 2006. (FR0004038263 – PARRO). For more information, please visit www.parrot.com

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APPENDICES

The quarterly consolidated financial statements:

- Were approved by the Board of Directors on November 14th, 2014,
- Will be audited at the end of the second half of 2014,
- Include, on a fully consolidated basis, senseFly from the fourth quarter of 2012 and Pix4D from January 1st, 2014.

Breakdown of revenues by business

Consolidated accounts - IFRS (€M and % of Group revenues)	Q3 2013		Q3 2014		2013 9 months		2014 9 months	
Automotive	38.0	69%	31.1	49%	126.6	72%	102.0	62%
Retail	9.7	17%	9.2	14%	40.9	23%	32.1	20%
Key Accounts	28.3	51%	21.9	34%	85.7	49%	70.0	43%
Drones	12.1	22%	27.7	44%	28.2	16%	45.8	28%
Retail	10.1	18%	24.2	38%	23.9	14%	36.7	22%
Commercial and Civil	1.9	3%	3.5	6%	4.3	2%	9.2	6%
Connected Devices	5.2	9%	4.3	7%	19.1	11%	14.3	9%
Audio	2.8	5%	2.3	4%	9.4	5%	7.1	4%
Plug & Play	2.2	4%	1.7	3%	9.3	5%	6.2	4%
Other Connected Devices	0.2	0%	0.3	1%	0.4	0%	1.0	1%
Other	0.2	0%	0.5	1%	0.8	0%	1.4	1%
Group total	55.4	100%	63.6	100%	174.7	100%	163.5	100%

Main aggregates for each business

Consolidated accounts - IFRS (€M)	Automotive	Drones	Connected Devices	Other
Q3 2014				
Revenues	31.1	27.7	4.3	0.5
Income from ordinary operations	1.4	1.6	-1.5	-0.5
% of revenues	3%	6%	-34%	NS
Q2 2014				
Revenues	35.9	10.5	5.1	0.5
Income from ordinary operations	1.1	-1.0	-1.6	-0.5
% of revenues	3%	-10%	-32%	NS
Q1 2014				
Revenues	35.0	7.6	4.9	0.4
Income from ordinary operations	0.8	-1.4	-2.4	-0.5
% of revenues	2%	-18%	-49%	NS

Condensed income statement

Consolidated accounts - IFRS (€M)	Q3 2013	Q3 2014	2013 9 months	2014 9 months
Revenues	55.4	63.6	174.7	163.5
Gross margin	28.0	33.9	89.0	85.8
% of revenues	50.6%	53.2%	50.9%	52.5%
Research and development costs	11.5	13.3	35.2	37.4
% of revenues	20.8%	20.8%	20.2%	22.9%
Sales and marketing costs	8.3	12.2	29.5	30.4
% of revenues	14.9%	19.1%	16.9%	18.6%
Administrative costs and overheads	3.2	4.0	10.6	12.2
% of revenues	5.9%	6.3%	6.1%	7.5%
Production and quality costs	2.8	3.4	8.5	10.2
% of revenues	5.1%	5.3%	4.9%	6.2%
Income from ordinary operations	2.2	1.0	5.1	-4.4
% of revenues	4.0%	1.6%	2.9%	-2.7%
EBIT	2.2	1.0	5.1	-4.1
% of revenues	4.0%	1.6%	2.9%	-2.5%
Financial income / expense	-1.1	0.6	-0.4	1.2
Corporate income tax	-1.1	-1.1	-3.6	-2.9
Net income	0.1	0.6	1.1	-5.8
Minority interests	-	-0.1	-0.2	-0.3
Net income (Group share)	0.1	0.7	1.3	-5.5
% of revenues	-0.2%	1.2%	0.8%	-3.4%