Parrot

PRESS RELEASE
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2016 second-quarter earnings

Condensed consolidated accounts [1] IFRS (€M)	Q1 2016	Q1 2016 restated [3]	Q2 2016	Q2 2016 restated [3]	Q2 2015
Revenues	**33.1**	**49.4**	**56.6**	**64.8**	**69.2**
- Drones	2.4	18.7	26.5	34.7	30.4
- Automotive	25.2	25.2	25.9	25.9	34.2
- Connected devices	4.7	4.7	3.5	3.5	4.1
- Other	0.7	0.7	0.7	0.7	0.6
Gross margin	**4.1**	**18.5**	**18.6**	**27.6**	**34.6**
% of revenues	*12.4%*	*37.6%*	*32.9%*	*42.6%*	*50.0%*
EBITDA [2]	**-36.1**	**-21.7**	**-24.1**	**-15.1**	**0.5**
EBIT	**-40.3**	**-25.9**	**-27.4**	**-18.4**	**-3.4**
% of revenues	*NS*	*-52.4%*	*-46.2%*	*-28.4%*	*-5.0%*
Net income (Group share)	**-39.1**	**-**	**-27.9**		**-4.9**
% of revenues	*NS*	-	*-49.4%*		*-7.2%*
Net income	**-40.1**	**-**	**-28.8**		**-4.8**
		-			
Earnings per share [4]	**-1.31**	**-**	**-0.91**		**-0.39**
Diluted earnings per share	-1.31	**-**	**-0.91**		-0.39
		-			
Net cash	**296.7**	**-**	**230.4**		**64.2**

(1) Consolidated earnings include Airinov from August 1, 2015 and MicaSense from October 1, 2015.
(2) Restated EBITDA: EBIT excluding depreciation and amortization.
(3) Non-recurring items linked to the change of commercial policy:
- recognized against revenues (i) in Q1 2016: protection of retailer prices (-5.0 million euros), couponing (-1.7 million euros), exceptional returns (-9.5 million euros). (ii) in Q2 2016: exceptional returns (-8.3 million euros);
- recorded in the gross margin and EBIT: protection of retailer prices (-5.0 million euros), couponing (-1.7 million euros), exceptional returns (-4.7 million euros), provisions for inventories (2.9 million euros). (ii) in Q2 2016: provisions for realizable net value: (-7.2 million euros), other (+3.0 million euros, exceptional returns (-4.8 million euros);
(4) Accounting number of shares (weighted average) at June 30, 2016: 30,163,036.

Second-quarter consolidated revenues came to 56.6 million euros (non-significant foreign exchange impact of -0.9% on reported revenues). Following on from the repositioning of the commercial strategy, quickly rolled out over the first quarter and finalized in the second quarter, the Group has selectively resumed sales to retailers (sell-in).

EBIT came to -27.4 million euros for the second quarter, reflecting the acceleration in spending announced at the end of 2015 and particularly the strengthening of the design office, as well as the ramping up of resources allocated for sales and marketing.

Adjusted for non-recurring items, first-half revenues represent 114.2 million euros, with -43.5 million euros of EBIT. The rationalization of its processes and product ranges is positioning the Group to effectively capitalize on the strong seasonal trends for sales over the second half of the year.

Second-quarter highlights

Consumer Drones and Connected Devices: Consumer drones generated 18.3 million euros of revenues (32% of Group revenues), with 3.5 million euros for connected devices (6% of Group revenues). In connection with the change of commercial policy launched in the first quarter, the Group has once again carried out selective product returns for 8.3 million euros. Restated for returns, revenues represent 26.6 million euros, with 17% growth versus the second quarter of 2015. The rollout of the new organization and the “Flying Season” promotional campaign have made it possible to reduce retailer stock levels (sell-out) and gradually resume sales to retailers (sell-in). The products returned will be sold off in line with the opportunities generated by the Group’s salesforce and have been covered by provisions, which have also impacted the gross margin.

Parrot is finalizing its products for the second half of the year, capitalizing on a streamlined product range, focused on innovation, differentiation and quality, enabling it to set out its brand identity and competitiveness against a backdrop of very strong seasonal trends. This portfolio, for which the sales process is gradually being aligned with the standards of leading consumer high-tech firms, has received a positive response from retailers following the confidential presentations given during the quarter.

The new products will also benefit from growth in the number of points of sale (+30%), through deals signed with flagship retailers such as Walmart, as well as the significant increase in online sales and, lastly, the optimization of Parrot's marketing strategy, tailored to each channel, country and customer segment.

Commercial Drones: Commercial drones and solutions generated 8.2 million euros of revenues (15% of Group revenues). The subsidiaries are rolling out a strategy for strong growth through verticalization on the priority markets (mapping, precision farming and inspection), while ramping up their international development.

Equipment sales (3.4 million euros, -48%), held back by US regulations being deferred to autumn 2016, were better for the second quarter. Commercial performance figures have started to benefit from the first weeks of sales of the agricultural sensor Sequoia. The range has been further strengthened with comprehensive solutions put in place (financing, administration, operation and maintenance) making it easier for key accounts and professionals to access the productivity gains opened up by drones. The partnership between senseFly and Skyward announced at the end of June is one illustration of this, and further technological and commercial developments are currently being finalized.

Sales of software and services (+190% like-for-like and +336% with the new consolidated agricultural drone subsidiaries in Europe and the US) are being driven by (i) the success of the mapping software solutions and their various versions to cover diverse needs, from key accounts to self-employed professionals, (ii) the new software released for precision farming to accompany the Sequoia sensor, and (iii) the rapid progress made with dedicated services for the precision farming market, with new subsidiaries opened in the UK, Netherlands and Denmark.

Automotive: The automotive business generated 25.9 million euros of revenues (46% of Group revenues). The automotive business development plan is still in line with the Group's expectations. A new contract has been signed with a Chinese manufacturer, confirming the target for growth to resume in 2017. The change in sales and earnings must be assessed on an annual basis.

2016 second-quarter earnings

The consolidated **gross margin** for the period represents 32.9% of revenues. The level of the gross margin for the period reflects the impacts of the promotional operations and the returns of products that will be resold over the rest of the year in line with opportunities (exceptional product returns: 4.8 million euros; and provisions for impairments: 7.2 million euros). Restated for non-recurring items, the gross margin rate comes out at 42.6%.

R&D spending came to 18.8 million euros, compared with 15.0 million euros for the second quarter of 2015. R&D is focused on (i) the finalization of a selection of original and innovative consumer products to be launched over the second half of the year and a three-year development roadmap, as well as (ii) the verticalization of commercial drone technologies, solutions and services for each business (mapping, precision farming and surveillance).

Sales and marketing spending came to 15.8 million euros, compared with 12.6 million euros for the second quarter of 2015. The higher level of spending reflects the promotional operations (2.7 million euros in Q2) and the efforts to structure the department with a view to supporting growth in the consumer and commercial civil drone market.

Production and quality spending came to 4.7 million euros, compared with 4.0 million euros for the second quarter of 2015. Spending levels are in line with the increase in purchases of equipments to prepare for various launches over the second half of 2016, while the separation of the Automotive and Drone electronic manufacturing suppliers (EMS) announced at the start of the year is currently being finalized. The expected benefits include accelerating production capacities for consumer drones and ensuring better financial conditions, which will offset the costs incurred at the start of the year from the second half of 2016.

Administrative costs and overheads represent 6.8 million euros, compared with 4.9 million euros for the second quarter of 2015. The consolidation of the agricultural drone subsidiaries in Europe and the US, the strengthening of the Group's administrative teams and the deployment of IT solutions (logistics and e-commerce), as well as one-off legal costs (patents and brands) are logically accompanying this phase to structure the Group.

Income from ordinary operations totaled -27.4 million euros (-18.4 million euros restated), with 46.1 million euros of total operating expenditure for the second quarter. **Financial income and expenses** came to 0.8 million euros, with a tax expense of -1.9 million euros. **Net income** (Group share) came to -27.9 million euros, with minority interests, i.e. the investments in commercial civil drone startups, representing -0.9 million euros.

At June 30, 2016, the Group's **workforce** represented 1,212 people, compared with 1,046 at December 31, 2015, including 61 people linked to the consolidation of the agricultural drone subsidiaries and 95 external contractors (versus 88 at December 31, 2015) who temporarily cover any additional areas of expertise required, primarily technological. Overall, commercial drones are the main contributors to the increase in the headcount, with more than 116 people arriving since the start of the year.

Cash flow and balance sheet as of June 30, 2016

At June 30, 2016, Parrot had 230.4 million euros in net cash, while the Group's shareholders' equity represented 360.7 million euros. Cash consumption for the first half of the year represents 101.5 million euros, with the following breakdown: EBITDA: -60.2 million euros; working capital: +0.5 million euros; operational investments: -8 million euros; financial investments: -31.3 million euros, with 25 million euros refinanced through debt (for the remaining 41.89% of senseFly's capital and the acquisitions of minority interests announced in the first quarter).

Working capital requirements are virtually stable despite the contraction in business linked to the persistent surplus stock levels, primarily resulting from stocks taken back from retailers. Net inventories represent 69.7 million euros, compared with 68.4 million euros at end-December 2015. Trade receivables (42.5 million euros, versus 85 million euros at end-2015) and trade payables (41.2 million euros, versus 84.5 million euros at end-2015) are in line with the level of business for the period.

Outlook

The key strategies for 2016 were presented in the press release from February 29, 2016 on 2015 fourth-quarter earnings and the 2015 reference document, which are notably available on www.parrot.com under "Investor Relations".

For this **third quarter**, Parrot is forecasting:

- The launch of its next-generation consumer drones before the end of the summer, as well as new offers for commercial markets (hardware, software and services);
- A significant upturn in sales trends, supported by the product launches, combined with the impacts of the new marketing strategy and the development of the commercial strategy (increase in points of sale and online sales);
- A normalization of operating expenditure: the drone recruitment plan is stabilizing and the number of external contractors has been reduced thanks to the finalization of various products;
- Working capital consumption linked to the resumption of growth and the normalization, compared with previous years, of trade payables at the end of the year.

Alongside this, Parrot will continue to **buy back its own shares** for a total of 300,000 shares, following the 150,000 acquired during the first quarter of 2016.

For the second half of 2016, the launch schedule and the positive response to the various products are still essential for achieving the full-year growth targets.

Next financial dates

- **September 14, 2016: Kepler Cheuvreux Autumn Conference (Paris, France)**
- **September 19, 2016: OpCo Drone Investor Forum (New York, USA)**
- **October 5 and 6, 2016: European Large & Midcap Event (Paris, France)**
- **November 14, 2016: publication of 2016 third-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:

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

Headquartered in Paris, Parrot currently employs more than 900 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 consolidated accounts:

- *were approved by the Board of Directors on July 29, 2016,*
- *include, on a fully consolidated basis, Airinov since August 1, 2015 and MicaSense since October 1, 2015.*

Breakdown of revenues by business

Consolidated accounts - IFRS (€M and % of Group revenues)	Q1 2016		Q2 2016		Q2 2015	
Drones	**2.4**	**7%**	**26.5**	**47%**	**30.4**	**44%**
Consumer	-3.2	ns	18.3	32%	22.7	33%
Commercial – hardware	2.6	8%	3.5	7%	6.6	10%
Commercial – software and services	3.1	9%	4.8	8%	1.1	1%
Connected devices	**4.7**	**14%**	**3.5**	**6%**	**4.1**	**6%**
Audio	4.4	13%	2.6	5%	3.6	5%
Other connected devices	0.3	1%	0.9	1%	0.5	1%
Automotive	**25.2**	**76%**	**25.9**	**46%**	**34.2**	**49%**
Aftermarket (Retail)	8.1	24%	10.1	18%	15.5	22%
OEM (Key Accounts)	17.1	52%	15.8	28%	18.6	27%
Other	**0.7**	**2%**	**0.7**	**1%**	**0.6**	**1%**
Group total	**33.1**	**100%**	**56.6**	**100%**	**69.2**	**100%**

Key aggregates for each business

Consolidated accounts – IFRS (€M)	Drones	Connected devices	Automotive	Other
Q1 2016				
Revenues	**2.4**	**4.7**	**25.2**	**0.7**
Income from ordinary operations	**-37.4**	**-3.1**	**0.5**	**-0.2**
% of revenues	*ns*	*-67%*	*2%*	*-28%*
Q2 2016				
Revenues	**26.5**	**3.5**	**25.9**	**0.7**
Income from ordinary operations	**-27.8**	**-2.9**	**4.0**	**-0.8**
% of revenues	*ns*	*-82%*	*16%*	*-*
Q2 2015				
Revenues	**30.4**	**4.1**	**34.2**	**0.6**
Income from ordinary operations	**-3.9**	**-0.5**	**3.3**	**-0.8**
% of revenues	*-13%*	*-11%*	*10%*	*ns*

Income statement

Consolidated accounts – IFRS (€M)	Q1 2016	Q2 2016	Q2 2015
Revenues	**33.1**	**56.6**	**69.2**
Gross margin	**4.1**	**18.8**	**34.6**
% of revenues	*12.4%*	*32.9%*	*50.0%*
R&D costs	**-16.7**	**-18.8**	**-15.0**
% of revenues	*-50.7%*	*-33.2%*	*-21.6%*
Sales and marketing costs	**-15.6**	**-15.8**	**-12.6**
% of revenues	*-47.2%*	*-27.9%*	*-18.2%*
General and administrative costs	**-7.9**	**-6.8**	**-4.9**
% of revenues	*-23.8%*	*-12.0%*	*-6.9%*
Production and quality costs	**-4.2**	**-4.7**	**-4.0**
% of revenues	*-12.7%*	*-8.3%*	*-5.8%*
Income from ordinary operations	**-40.3**	**-27.4**	**-1.8**
% of revenues	*ns*	*-48.4%*	*-1.3%*
EBIT	**-40.3**	**-27.4**	**-3.4**
% of revenues	*ns*	*-46.2%*	*-5.0%*
Financial income / expense	**-1.1**	**0.8**	**0.1**
Corporate income tax	1.4	-1.9	-1.4
Income from associates	-0.1	-0.3	-
Net income	**-40.1**	**-28.8**	**-4.8**
Minority interests	-1.0	-0.9	0.2
Net income (Group share)	**-39.1**	**-27.9**	**-4.9**
% of revenues	*ns*	*-49.4%*	*-7.2%*

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Consolidated balance sheet

Consolidated accounts - IFRS (€M)	Jun 30, 2016	Dec 31, 2015	Jun 30, 2015
Non-current assets	**126.5**	**124.7**	**100.3**
Goodwill	57.9	58.1	40.1
Other intangible assets	40.3	41.0	43.0
Property, plant and equipment	11.1	9.8	8.7
Financial assets	7.2	5.4	6.4
Investments in associates	0.8	1.2	-
Deferred tax assets	9.3	9.1	2.1
Current assets	**426.1**	**529.0**	**189.0**
Inventories	69.7	68.4	46.5
Trade receivables	42.5	85.0	48.3
Other receivables	38.9	24.4	28.2
Other current financial assets	128.0	158.0	13.0
Cash and cash equivalents	147.1	193.1	53.0
TOTAL ASSETS	**552.6**	**653.6**	**289.3**

Consolidated accounts - IFRS (€M)	Jun 30, 2016	Dec 31, 2015	Jun 30, 2015
Shareholders' equity			
Share capital	4.6	4.6	1.9
Issue and contribution premiums	331.6	331.1	44.8
Reserves excluding earnings for the period	87.1	83.9	116.6
Earnings for the period - Group share	-67.0	0.5	-10.1
Exchange gains or losses	4.4	5.0	3.5
Equity attributable to Parrot SA shareholders	360.7	424.9	156.8
Minority interests	-0.7	0.6	-0.2
Non-current liabilities	75.9	75.4	16.3
Non-current financial liabilities	41.7	17.0	1.4
Provisions for pensions and other employee benefits	2.5	2.3	2.8
Deferred tax liabilities	1.0	1.0	-
Other non-current provisions	-	-	-
Other non-current liabilities	30.6	55.0	12.0
Current liabilities	116.7	152.5	116.0
Current financial liabilities	3.0	2.3	0.4
Current provisions	11.2	11.8	11.0
Trade payables	41.2	84.5	49.3
Current tax liability	3.5	5.1	3.1
Other current liabilities	57.7	48.7	52.3
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**552.6**	**653.6**	**289.3**

Cash-flow statement

Consolidated accounts - IFRS (€M)	Jun 30, 2016	Dec 31, 2015	Jun 30, 2015
CASH FLOW FROM OPERATIONS			
Earnings for the period	-69.0	1.6	-9.5
Share in income from associates	0.4	1.2	
Depreciation and amortization	7.0	19.2	10.0
Capital gains and losses on disposals	ns	ns	ns
Remeasurement of investments previously classed as equity associates	-	-7.2	-
Tax charges	0.7	0.2	2.4
Cost of share-based payments	2.3	4.1	2.5
Net finance costs	0.3	-0.1	-0.3
Cash flow from operations before tax and net finance costs	-58.3	19.0	5.3
Change in working capital requirements	0.5	-32.2	-13.2
Tax paid	-1.6	-4.5	-0.8
Net cash from operating activities (a)	**-59.4**	**-17.6**	**-8.7**
INVESTING CASH FLOW			
Acquisition of property, plant and equipment and intangible assets	-7.9	-13.3	-6.2
Acquisition of subsidiaries, net of cash acquired	-29.5	-4.7	-
Acquisition of long-term financial investments	-1.8	-3.3	-0.2
Disposal of long-term financial investments	0.1	0.1	0.1
Cash flow from investment activities (b)	**-39.1**	**-21.1**	**-6.3**
FINANCING CASH FLOW			
Equity contributions	0.9	290.3	1.3
Receipts linked to new loans	25.0	17.8	
Cash invested for over 3 months	30.0	-138.6	6.4
Net finance costs	-0.3	0.1	0.3
Exchange hedging instruments	-	-	-
Repayment of short-term financial debt (net)	-0.1	-11.0	-10.5
Repayment of other debt	-	-	-
Treasury stock purchases and sales	-2.3	-0.3	-3.0
Cash flow from financing activities (c)	**53.1**	**158.3**	**-5.4**
Net change in cash position (d = a+b+c)	**75.5**	**119.5**	**-20.4**
Net foreign exchange gain / loss	**-0.5**	**3.3**	**3.1**
Cash and cash equivalents at period-start	**193.1**	**70.3**	**70.3**
Cash and cash equivalents at period-end	**147.1**	**193.1**	**53.0**
Other current financial assets	**128.0**	**158.0**	**13.0**
Cash, cash equivalents and other current financial assets at period-end	**275.1**	**351.1**	**66.0**