Parrot

PRESS RELEASE
Paris, March 15, 2019 - 7am CET

2018 business and earnings

- **Earnings in line with preliminary data (press release from January 29)**
    - **2018 Group revenues: -28%**
    - **Commercial Drone revenues: +5%**
    - **Impact of the writedown of goodwill and the automotive subsidiary's sale**
    - **Net cash at December 31, 2018: €160.3m**
- **Sustained innovation strategy and continuous adaptation of the portfolio of companies in line with changes on the drone market and its sub-segments**
- **Target to have €100m of net cash at end-2019**
- **Governance changes to ratify the strategy presented on November 23**

The accounts were approved by the Board of Directors on March 13, 2019. The audit procedures have been completed and the report on the consolidated accounts without any reservations is scheduled to be issued at a later date. The certification report will be issued once the management report has been verified.

IFRS 15 "Revenue from Contracts with Customers" came into force and has been applied as of January 1, 2018 using the simplified retrospective approach. The financial information for previous periods has not been restated, but a presentation of the impacts of the application for 2018 is appended.

• Key developments from 2018

Sale of Parrot Faurecia Automotive: In accordance with the agreement between Parrot and Faurecia announced on July 5, 2018, Parrot sold its entire remaining interest in Parrot Faurecia Automotive at September 30, 2018, which had been 80% owned by Parrot and 20% by Faurecia since March 31, 2017. For reference, the impact of the loss of control recorded in the accounts at March 31, 2017 after Faurecia acquired a 20% stake in the subsidiary Parrot Automotive Faurecia represented €43m after fees and taxes.

Parrot received €67.5m on this sale, taking its overall proceeds from this operation up to €108.5m, including €41m from the conversion of the bonds issued in 2017 by Parrot SA for Faurecia, converted at the same time as the sale of the remaining interests. The corresponding capital gain in Parrot SA's accounts at December 31, 2018 represents:

- €12.8m before fees and taxes – recorded in other operating income at December 31, 2018;
- €14.5m after fees and taxes, including a €1.6m reversal of deferred tax liabilities and €0.1m of fees.

In addition, Parrot Faurecia Automotive will continue to benefit from the "Parrot" brand license until the end of the agreed timeframe, i.e. end-2021, in return for royalties based on Parrot Automotive's revenues.

Reorganization of the Drone business: On November 23, 2018, the Group announced a plan for departures with a view to reducing the resources used by Parrot Drones' marketing and production structures to adjust them in line with current market capacity. This plan concerns around 100 people and is focused primarily on international operations, particularly in the US and Asia. The costs incurred in connection with this reorganization represent nearly €10m at December 31, 2018.

Alongside this, the Parrot Group has chosen to develop a portfolio of subsidiaries and associates. With recognized brands, strong management and complementary positionings, the subsidiaries and associates are focusing on the development of their commercial activities, jointly or independently addressing the needs of consumers, professionals, businesses and major groups, as well as the rest of the drone industry.

Writedown of goodwill: The goodwill, representing €42.0m, was written down in full at September 30, 2018, in line with the revised business and earnings assumptions. This position was confirmed with a valuation report from an independent third party concerning the Group's shareholders' equity.

Sale of a subsidiary dedicated to connected devices: During the first half of 2018, and after the decision was approved by the Board of Directors on May 17, 2018, the Group sold the securities it held in Shmates to Horizon S.A.S. The proceeds from this sale represent €2.1m. An earnout will be paid in 2023 if two combined criteria for revenue and EBIT targets are respected by 2022.

Horizon's public tender offer for Parrot's securities: Following the acquisition of a 9.59% block of Parrot's capital by Horizon, a company controlled by Henri Seydoux, Parrot's founder, Chairman and CEO, from funds managed by Amiral Gestion at a price of €3.20 per share, Horizon filed a proposed mandatory public tender offer on January 29, 2019 with the French Financial Markets Authority (AMF) for Parrot's shares at the same price of €3.20 per share, as well as an offer for the warrants issued by Parrot (the "warrants") at a price of €0.01 per warrant (the "Offer"). The AMF issued its decision concerning the Offer's compliance on March 5, 2019.

The Offer concerns all the Parrot shares and all the warrants not already held directly or indirectly by the Offeror.

The Offeror does not intend to ask the AMF, in connection with the Offer, to apply a squeeze-out for the Parrot shares and warrants, or to ask Euronext to delist the Parrot shares and warrants from the regulated market Euronext.

The Offer is being carried out based on the standard procedure, in accordance with the terms of Articles 232-1 *et seq* of the AMF's general regulations, and is subject to the minimum acceptance threshold set by Article 231-9 I of the AMF's general regulations.

On the date of this press release, the Offer is underway and the detailed information relating to it is available on corporate.parrot.com, under "Public tender offer".

- ## Change and breakdown of revenues

IFRS, €m and % of revenues *(details appended)*	FY 2018		FY 2017		Change	Q4 2018		Q4 2017		Change
- Consumer drones	**52.8**	**48%**	**78.2**	**51%**	**-32%**	**14.8**	**48%**	**28.1**	**57%**	**-47%**
- Business solutions	**43.6**	**40%**	**41.6**	**27%**	**+5%**	**12.5**	**41%**	**11.4**	**23%**	**+10%**
DRONE TOTAL [(1)]	**96.4**	**88%**	**119.8**	**79%**	**-20%**	**27.3**	**89%**	**39.2**	**81%**	**-30%**
- Other consumer products	12.8	12%	32.1	21%	-60%	3.6	11%	9.4	19%	-62%
GROUP TOTAL	**109.2**	**-**	**151.9**	**-**	**-28%**	**30.8**	**-**	**49.0**	**-**	**-37%**

(1) Revenues for Parrot Professional and Sequoia are presented under "Commercial drones". In 2017, they were not particularly significant and were presented under "Consumer Drones".

Consumer Drone revenues (48% of Group revenues)

Consumer Drones generated €52.8m of revenues in 2018, down 32%. In total, Parrot Drones, the company housing consumer operations, sold around 413,000 consumer drone units in 2018, compared with around 604,000 in 2017, with volumes contracting 32%.

Following the resizing of the product portfolio in 2017, Parrot presented a new consumer drone in June 2018, the Parrot ANAFI. With its renowned technical features, combining 4K images, zoom and 180° vision, as well as its battery life (25 mins) and portability (foldable and weighing 320gr), Parrot Anafi's sales, against a backdrop of a sharp slowdown on the consumer drone market in the third quarter, remained well below Parrot Drones' expectations. Drone market trends were no more favorable in the fourth quarter and revenues for the period came to €14.8m, contracting 47% compared to the fourth quarter of 2017.

This situation, affecting the company's business model, led to the reorganization announced on November 23, 2018: a departure plan covering around 100 people, focused on international operations, has been rolled out with a view to reducing the resources consumed by the marketing and production structures, in line with current market capacity. This plan will be finalized during the first quarter of 2019.

Commercial Drone revenues (40% of Group revenues)

The commercial drone subsidiaries generated total revenues of €43.6m in 2018, up 5%.

Sales of software and services (Pix4D, Airinov) are up 24% year on year, to €25.2m, driven by the robust performances of Pix4D (drone imaging analysis software), which has extended its offering and its international organization, with a presence already established in Spain and Germany and underway in Japan, following on from its structures in China and the US. The development of Airinov (drone imaging services and data analysis for precision farming) has plateaued for the moment: the adoption of new technologies to measure crop health and productivity is following the agricultural sector's pace for modernization. As announced in November 2018, Parrot Airsupport was put on standby in the fourth quarter.

Equipment revenues (senseFly and Micasense) came to €18.4m, with this year on year contraction (-14%) reflecting the delays with launches for the next generation of fixed-wing drones, which was carried out in the fourth quarter. Making a lower contribution, sensor sales continued to progress throughout the year. In the fourth quarter, the performance for equipment sales was able to be normalized, with revenues up 73% from the previous quarter.

On the Defense and Security market, following a phase to research and understand expectations, headed up by the new experts recruited, promising initial trials have been carried out in various countries and the companies (Parrot Drones, Sky Hero and Planck Aerosystems) are delivering their first orders and will gradually ramp up their commercial activities.

Other Consumer Products revenues (12% of Group revenues)

The contraction (-62%) in this historical business (retail automotive handsfree kits and connected devices) is in line with the strategy to realign the business around drones. After sales of connected devices were discontinued in 2018, sales of automotive products will continue to be scaled down in 2019.

Condensed income statement

IFRS, €m *(details appended)*	FY 2018	FY 2017	Change	Q4 2018	Q4 2017	Change
Revenues	**109.2**	**151.9**	**-28%**	**30.8**	**49.0**	**-37%**
Gross margin	**33.8**	**51.2**	**-34%**	**5.8**	**10.6**	**-45%**
% of revenues	*31.0%*	*33.7%*		*18.9%*	*21.6%*	
Income from ordinary operations	**-65.9**	**-57.6**	**-14%**	**-17.0**	**-16.3**	**-4%**
% of revenues	*-60.3%*	*-37.9%*		*-55.1%*	*-33.2%*	
EBIT	**-103.2**	**-69.3**	**-49%**	**-26.4**	**-14.4**	**-83%**
% of revenues	*-94.5%*	*-45.6%*		*-85.7%*	*-29.5%*	
Net income (Group share)	**-111.2**	**-38.2**	**-191%**	**-27.4**	**-22.1**	**-24%**
% of revenues	-101.9%	-25.2%		-88.8%	-45.3%	

The consolidated **gross margin** for 2018 came to 31.0% of revenues, and 33.5% restated for the impact of IFRS15, compared with 33.7% in 2017. In the fourth quarter, developments on the Consumer Drone market impacted the gross margin rate, which came to 18.9%, compared with 21.6% for the same period in 2017.

Current operating expenditure came to €99.7m in 2018, compared with €108.8m in 2017. The reduction in operating costs for Parrot Drones has been further strengthened since the end of the year to ensure alignment with current trends for consumer drone sales. Over 2018, Parrot Drones' expenditure focused primarily on finalizing and launching the Parrot Anafi, in June, as well as its first commercial applications (Anafi Work) in the autumn. Expenditure for the professional subsidiaries is supporting the development of increasingly advanced and better integrated technologies and solutions, as well as the commercial expansion, through local offices, of strategic partnerships or specialized distribution networks.

At December 31, 2018, the Group's **workforce** (permanent and fixed-term contracts) represented 641 people (597 at December 31, 2017 and 658 at September 30, 2018), in addition to 23 external contractors (32 at December 31, 2017 and 41 at September 30, 2018). The Commercial Drone subsidiaries have a total of 328 staff (285 at December 31, 2017 and 320 at September 30, 2018), representing 51% of the Group's workforce. Parrot Drones has 268 staff (269 at December 31, 2017 and 291 at September 30, 2018) and Parrot SA has 45 (44 at December 31, 2017 and 47 at September 30, 2018). Overall, Parrot still has an outstanding European design office and continues to benefit from its market-leading capacity for innovation in the drone sector.

Non-current expenditure totaled €37.3m in 2018, with €14.9m of proceeds from disposals (Parrot Faurecia Automotive and Shmates), a -€42.0m writedown of goodwill and the remaining amount for non-recurring expenses (restructuring, public tender offer).

Financial income and expenses represent -€0.9m, linked primarily to exchange losses, while taxes are limited by the losses recorded. The **share in income from associates**, for -€7.9m, corresponds primarily to Parrot Faurecia Automotive, with the other minority investments (Planck Aerosystems and Sky Hero) accounting for less than €1m.

Cash flow and balance sheet at December 31, 2018

Net cash (including current and non-current financial assets and liabilities) represents €160.3m at end-2018, compared with €115.4m at end-2017: the losses for the year were offset by the divestments, including €108.5m from the sale of the automotive subsidiary.

The change in working capital requirements came to €5.5m for the year, with the impact of the measures adopted at the end of the year to offset the effects of the launches and the slowdown on the consumer drone market.

Parrot's shareholders' equity represents €162.9m (€251.2m at December 31, 2017), with a total balance sheet of €244.3m (€402.7m at December 31, 2017), reflecting the total writedown of goodwill and the losses for the period. Net inventories of €19.4m (€23.2m at December 31, 2017) and trade payables of €27.7m (€37.6m at December 31, 2017) are in line with the measures rolled out at the end of the year to limit consumer drone production and launch production for commercial drones. Trade receivables represent €27.7m (€40,2m at December 31, 2017), in line with the level of business.

Governance changes

In line with the strategic guidance announced on November 23, 2018, Parrot SA's Board of Directors accepted, during its meeting on March 13, 2019, Mr Gilles Labossière's resignation from his position as Executive Vice President. To ratify Parrot Drones' streamlined organization and continue building the recognition of a portfolio of outstanding equity investments, the Board invited Mr Gilles Labossière to rejoin Parrot SA's teams, which he accepted, with a mission to oversee two of the Group's strategic equity interests - senseFly and MicaSense - in addition to serving as their Executive Director.

Outlook for 2019

Parrot Drones is continuing to adapt its organization in line with drone market developments and is targeting substantial savings in 2019, after taking into account restructuring costs, which are still estimated at around €15m (nearly €10m of which was already recorded over 2018). Resources are focused on advanced R&D, ramping up the gateways between consumer and commercial uses, streamlined distribution networks, managed primarily from France, and targeting online sales in priority, as well as opportunistic marketing operations, linked to trends on the various regional markets.

The commercial drone subsidiaries are forecasting double-digit growth, supported by a diversified offering, developed specifically for the various target industries (precision farming, 3D mapping, geomatics, inspection and security), but whose development is still dependent on the increased penetration of the new technologies offered by drones, while the pace of adoption is difficult to forecast.

Over 2019, the expectations will be reflected in:

- A significant contraction for Parrot Drones' business, in a consumer drone market that is expected to be flat, with commercial uses to slowly ramp up, while increasingly widespread use among smaller businesses is still being held back by the regulatory environment. The actions taken are expected to reduce the annual loss to a sustainable level to continue responding to the market's long-term potential.
- Stronger growth for the commercial drone companies, consolidated by their solid offers in a still buoyant market, within which the development of drone technologies for business clients and key accounts is being restricted less by the regulatory framework. Most of them are expected to be close to breaking even by the end of the year.

Based on these elements, Parrot is expected to have around €100m of cash and an outstanding portfolio of companies and interests at the end of 2019.

From the first quarter of 2019, in line with the strategy and organization, the various business units will be presented independently.

Next financial dates

- 2019 first-quarter earnings: May 17, 2019
- Parrot's general shareholders' meeting: June 13, 2019
- 2019 second-quarter earnings: August 1, 2019
- 2019 third-quarter earnings: November 15, 2019

ABOUT PARROT

Founded in 1994 by Henri Seydoux, Parrot is today the leading European group in the fast-growing industry of drones. Visionary, at the forefront of innovation, Parrot is the only group to be positioned across the entire value chain, from equipment to services and software.

- Parrot, the world's number 2 of the consumer drone market, designs drones known for their high performance and ease of use.
- Parrot has a portfolio of outstanding companies and interests in commercial drones, covering equipment, software and services. Its expert capabilities are focused primarily on three vertical markets: (i) Agriculture, (ii) 3D Mapping, Surveying and Inspection, and (iii) Defense and Security.

The Parrot Group designs and engineers its products in Europe, mainly in France and Switzerland. It currently employs over 500 people worldwide and makes the majority of its sales outside of France. Parrot, headquartered in Paris, has been listed since 2006 on Euronext Paris (FR0004038263 - PARRO). For more information: www.parrot.com

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APPENDICES

The accounts were approved by the Board of Directors on March 13, 2019. The audit procedures have been completed and the report on the consolidated accounts without any reservations is scheduled to be issued at a later date. The certification report will be issued once the management report has been verified.

IFRS 15 "Revenue from Contracts ith Customers" came into force on Januar 1, 2018. This standard replaces IAS 18 "Revenue". It has been applied at January 1, 2018 using the simplified retrospective approach. The financial information for previous periods has not been restated, but the impacts of the application for 2018 are presented below:

IFRS 15 IMPACT

€'000	Dec 31, 2018 Reported	Dec 31, 2018 Restated*	Dec 31, 2017
Revenues	109,240	113,377	151,871
Gross margin	33,829	37,965	51,176
% of revenues	*30.1%*	*33.5%*	*31.0%*
Income from ordinary operations	(65,917)	(65,917)	(57,579)
EBIT	(103,246)	(103,246)	(69,303)
Net income	(111,161)	(111,161)	(38,918)

** Restated for the impact of IFRS 15*

The reclassification of certain marketing costs as a deduction against revenues, whereas they were previously classed as operating expenses, represents the only impact of the application of IFRS 15.

The impact of the reclassification in the Group's consolidated accounts at December 31, 2018 represents €(4.1)m for revenues.

BREAKDOWN OF REVENUES BY BUSINESS

Consolidated accounts - IFRS (€m and % of Group revenues)	Q4 2018		Q4 2017		2018		2017	
Consumer drones and products	**18.3**	***59%***	**37.6**	***77%***	**65.6**	***60%***	**110.3**	***73%***
- Consumer drones [1]	14.8	*48%*	**27.8**	*57%*	52.8	*48%*	78.2	*51%*
- Other consumer products [2]	3.2	*10%*	**9.7**	*19%*	12.2	*11%*	31.5	*21%*
- Others	0.4	*1%*	**0.1**	*0%*	0.6	*1%*	0.5	*1%*
Commercial drones and solutions	**12.5**	***41%***	**11.4**	***23%***	**43.6**	***40%***	**41.6**	***27%***
- Commercial equipment	*5.7*	*18%*	5.9	*12%*	*18.4*	*17%*	21.4	*14%*
- Software and services	*6.8*	*22%*	5.5	*11%*	*25.2*	*23%*	20.3	*13%*
Group total	**30.8**		**49.0**		**109.2**		**151.9**	

(1) Revenues for Parrot Professional and Sequoia are presented under "Commercial drones". In 2017, they were not particularly significant and were presented under "Consumer Drones".
(2) Historical Retail Automotive and Connected Devices products.
(3) Revenues from applications enabling the use of consumer products, which currently cannot be allocated between drones and other consumer products.

INCOME STATEMENT

IFRS in €m and % of revenues	Q4 2018	Q4 2017	2018	2017
Revenues	**30.8**	**49.0**	**109.2**	**151.9**
Gross margin	**5.8**	**10.6**	**33.8**	**51.2**
% of revenues	*18.9%*	*21.6%*	*31.0%*	*33.7%*
R&D costs	**-8.9**	**-9.6**	**-37.2**	**-36.9**
% of revenues	*-28.9%*	*-19.6%*	*-34.0%*	*-24.3%*
Sales and marketing costs	**-9.6**	**-12.8**	**-36.5**	**-44.8**
% of revenues	*-31.1%*	*-26.2%*	*-33.4%*	*-29.5%*
Administrative costs and overheads	**-2.4**	**-2.3**	**-16.9**	**-16.6**
% of revenues	*-7.8%*	*-4.6%*	*-15.5%*	*-11.0%*
Production and quality costs	**-1.9**	**-2.1**	**-9.1**	**-10.4**
% of revenues	*-6.3%*	*-4.4%*	*-8.4%*	*-6.8%*
Income from ordinary operations	**-17.0**	**-16.3**	**-65.9**	**-57.6**
% of revenues	*-55.1%*	*-33.3%*	*-60.3%*	*-37.9%*
Other operating income and expenses	**-9.4**	**1.9**	**-37.3**	**-11.7**
EBIT	**-26.4**	**-14.4**	**-103.2**	**-69.3**
% of revenues	*-85.7%*	*-29.5%*	*-94.5%*	*-45.6%*
Financial income and expenses	**-0.3**	**-2.5**	**-0.9**	**-5.3**
Share in income from associates	-0.5	-4.2	-7.9	-6.7
Income from discontinued operations, net of tax	-	ns	-	43.5
Corporate income tax	-0.2	-0.8	0.9	-1.1
Net income	**-27.5**	**22.3**	**-111.2**	**-39.3**
Minority interests	-0.1	0.2	0.1	-0.7
Net income (Group share)	**-27.4**	**-22.1**	**-111.3**	**-38.2**
% of revenues	*-88.8%*	*-45.3%*	*-101.9%*	*-25.2%*

BALANCE SHEET

ASSETS - IFRS, €m	Dec 31, 2018	Dec 31, 2017
Non-current assets	**15.0**	**160.9**
Goodwill	-	41.7
Other intangible assets	0.9	1.5
Property, plant and equipment	3.4	4.1
Investments in associates	6.1	107.3
Financial assets	4.4	6.0
Deferred tax assets	0.2	0.3
Current assets	**229.3**	**241.7**
Inventories	19.4	23.3
Trade receivables	27.6	40.2
Other receivables	20.7	20.7
Other current financial assets	18.0	13.0
Cash and cash equivalents	161.5	144.5
Assets held for sale	-	-
TOTAL ASSETS	**244.3**	**402.7**
Shareholders' equity	**162.9**	**251.2**
Share capital	4.6	4.6
Additional paid-in capital	331.7	331.7
Reserves excluding earnings for the period	-66.4	-48.2
Earnings for the period - Group share	-111.3	-38.2
Exchange gains or losses	5.9	4.0
Equity attributable to shareholders	**164.5**	**253.9**
Minority interests	-1.6	-2.7
Non-current liabilities	**8.6**	**71.7**
Non-current financial liabilities	1.3	42.2
Provisions for pensions and other employee benefits	0.9	1.0
Deferred tax liabilities	0.08	1.7
Other non-current provisions	-	-
Other non-current liabilities	6.3	26.8
Current liabilities	**72.8**	**79.8**
Current financial liabilities	-	-
Current provisions	17.3	13.9
Trade payables	27.6	37.6
Current tax liability	0.1	0.2
Other current liabilities	27.8	27.9
Liabilities held for sale	-	-
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**244.3**	**402.7**

CASH-FLOW STATEMENT

IFRS (€m)	Dec 31, 2018	Dec 31, 2017
Operating cash flow		
Earnings for the period from continuing operations	-111.2	-38.9
Share in income from associates	7.9	6.7
Depreciation and amortization	50.4	6.1
Capital gains and losses on disposals	-15.0	-44.7
Tax charges	-0.9	1.1
Cost of share-based payments	1.5	1.7
Net finance costs	0.01	0.3
Cash flow from operations before net finance costs and tax	**-67.2**	**-67.7**
Change in working capital requirements	5.5	27.9
Tax paid	-0.8	-0.5
Cash flow from operating activities (A)	**-62.6**	**-40.3**
Investing cash flow		
Interest received	-	-
Acquisition of property, plant and equipment and intangible assets	-4.2	-2.3
Acquisition of subsidiaries, net of cash acquired[(2)]	-0.7	-25.4
Acquisition of long-term financial investments	-0.4	-3.7
Increase in other current financial assets	-	-
Disposal of property, plant and equipment and intangible assets	0.01	0.09
Disposal of investments in companies accounted for using the equity method	67.5	-
Disposal of subsidiaries, net of cash divested	2.7	-9.4
Disposal of long-term financial investments	0.05	0.2
Cash flow from investment activities (B)	**54.9**	**-40.4**
Financing cash flow		
Equity contributions[(3)]	-	-
Dividends paid	-	-
Receipts linked to new loans	0.01	41.1
Cash invested for over 3 months	13.0	15.0
Net finance costs	-0.01	-0.3
Exchange hedging instruments	-	-
Repayment of short-term financial debt (net)	-	-42.0
Repayment of other debt	-	-
Sales / (Purchases) of treasury stock [(4)]	-0.08	-0.06
Interest paid	-	-
Cash flow from financing activities (C)	**13.0**	**13.7**
Net change in cash position (D = A+B+C)	**15.4**	**-67.0**
Net foreign exchange gain / loss	1.5	-4.8
Cash and cash equivalents at start of period	**144.5**	**216.3**
Cash and cash equivalents at end of period	**161.5**	**144.5**

Cash and cash equivalents at end of period –