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Drones: high-flying investment offers an alternative

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Drone technologies can help balance a portfolio.

Being practical and accepting that there can be marginal upside — yet parallel significant downside — spread across core investment markets during this stage of the ageing US bull market, many private banks and other market participants have been increasing Ultra High Net Worth investors allocations to what are referred to as “alternatives”.

And one highly discussed and perfect example of a true alternative investment opportunity being presented to many global UHNW investors is found within the burgeoning corporate utility of drones — the unmanned remote mini-aircraft that can carry goods such as parcels.

Spurred by a recently published Goldman Sachs research paper, “The Age Of The Drone”, which went to great lengths to argue the case for the mainstream acceptance of this technology, this alternative opportunity has stoked many engaged and lively conversations within UHNW wealth this month.

The burning question is whether this technology has indeed entered a new era and as this research paper highlights, having already made the leap from military to consumer use, are Unmanned Aerial Vehicles poised to see their next leg of growth from commercial and civil government applications?

They argue that whether performing construction surveys, inspecting pipelines, aiding in surveillance or helping farmers enhance yields, drones are developing into powerful

business tools and Goldman estimates that “the combined commercial, consumer, civil government, and military drone market could reach a cumulative \$US100 billion (\$133bn) between now and 2020, rivalling the size of the helicopter market, with ripple effects to areas such as insurance, camera makers, and component manufacturers”.

They also believe that the full economic benefit may be a multiple of this, as other organisations benefit from the savings and efficiencies of unmanned flight.

The attraction of this alternative thematic for Australian UHNW investors has been that if they do accept this premise and wish to position today to participate as early-stage investors, there does exist relatively straightforward ways of investing in US-listed companies who will benefit from this technological evolution.

With US regulations coming into focus to govern expanded use of drones, realistically by 2017, and the opening up of demand for drones in industries such as construction, agriculture, energy and mining, it is believed:

- Commercial use of drones will lead to a \$US21bn global market by 2020 from almost zero today;
- Consumer adoption of this technology will generate a \$US14bn global market by 2020, with foreseeable mid-teens growth rates thereafter;
- US civil governments will spend \$US3bn within the US from almost a nil base today;
- Military UAVs will skyrocket (pun intended) to a \$US70bn global market by 2020 with low double-digit growth rates well into the 2030s.

For global investors that accept these opinions, predictions and future reality, GoPro (GPRO: US), AeroVironment (AVAV: US), Trimble (TRMB: US), and Lockheed Martin (LMT: US) are leading innovation within the commercial subsets, with GoPro widely expected to release its “Karma drone” by June this year.

For US and global-export military applications of drone technologies, Flir Systems (FAIR: US), Harris Corp. (HRS: US) and even FTSE-listed Rolls Royce (RR: LN), appear to be the current defence industry leaders.

Within the US civil UAV landscape, Boeing (BA: US) is believed to be well positioned for upcoming US Coast Guard contracts with Amazon, Facebook, Alphabet (Google) and Intel chasing closely behind.

UHNW investors don't just purchase single tranches of listed shares, they often explore structured solutions that complement their portfolios.

In some basic respects the advent of drone technologies is simply intriguing on its own technological merits, whether their commercial and thus investment potentials are indeed ever realised.

It is important to remember what the wealthiest man of all time, Bill Gates, once said. “We always overestimate the change that will occur in the next two years and underestimate the change that will occur in the next 10. Don’t let yourself be lulled into inaction.”

For global investors facing suboptimal core investment markets, true alternatives such as drone technologies present a different potential flight path to investment success.

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