

EQUITY

What Really Stood Out at the 2019 US Consumer Electronics Show

January 24, 2019



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In early January, Franklin Equity Group's research analysts headed to Las Vegas for the Consumer Electronics Show (CES), the biggest technology trade show in the United States. Here, they report back on some of the event's highlights, as well as developments that may have slipped under the radar.

When we attend the US Consumer Electronics Show (CES) each year in Las Vegas, our goal is to avoid the marketing hype surrounding certain products. Instead, we look for the latest technologies we think are really going to make a difference, some of which may not generate media buzz.

In our view, it's important to understand the difference between a commercially viable product and a design concept. At CES, we try to avoid becoming overly excited by product announcements that don't include a firm price point or a launch date.

We also think it's important to consider the relevant gatekeepers or supporting technologies that are required to cooperate in order for a new product to be successful. In addition, we assess the ripple effects created from the adoption of the technology or product.

Will Electric Air Vehicles Take Off?



Bell Helicopter Textron showcases EVTOL technology at this year's CES.

Source: Bell Helicopter Textron Inc.

One of the most transformative announcements we saw at this year's CES was an electric vertical take-off and landing (EVTOL) vehicle. EVTOL enables air transportation in spaces that would otherwise be too limited in size to support a runway and other necessary infrastructure.

According to our analysis, EVTOL technology is still a few years away from commercial availability. However, in our view, it could fundamentally change transportation and logistics, primarily in urban environments.

A Peek Inside Autonomous Cars

At last year's CES, the focus in the autonomous vehicle space was on the original equipment manufacturers revealing design concepts. This year, exhibited technology focused on the interior of the car.

In particular, we saw sensors that perform facial recognition to determine levels of fatigue and emotions of the driver. We think this technology is likely to lead to new safety and luxury services that improve the passenger experience.

Similarly, we saw sensors that could be used to identify objects inside autonomous vehicles without the need for human intervention. In our view, progress in this area is important. The technology that controls autonomous vehicles has the potential to be hacked, so it requires additional layers of security.

Consumers Embrace Personal Health Tech

At this year's CES, we saw a proliferation of connected devices collecting terabytes of data. One of the most notable themes was digital health, which we broadly define to include fitness, sleep, beauty and wearable monitors.

Although various industries have used these connected devices for some time, they are just beginning to reach the consumer through rapid adoption in the health and wellness space. Companies are developing solutions that enable consumers to take greater ownership of their medical data and be more proactive in responding to potential health concerns.

CES Goes More Global

One aspect at this year's CES that didn't get much media attention is the growth in exhibition space devoted to early-stage innovation. This section of the conference, known as Eureka Park, hosted more than 1,200 companies from all over the world.¹

We saw exhibits from countries not typically represented in early-stage events, like Ukraine and Morocco. We also noticed there were about 20% fewer exhibiting companies from China compared to last year, probably due to US-China trade tensions.²

How We Keep Up with Tech Trends

While we enjoy seeing emerging technologies from all types of companies at CES, it's only one of the many ways we keep up with the latest trends. At Franklin Equity Group, we are part of a team of a dozen analysts and portfolio managers with expertise in specific technology-related areas such as artificial intelligence, autos and personal health tech.

Our team is encouraged to go deep and stay in close contact with companies in the particular sub-industries we cover. As Franklin Templeton's US headquarters are located in California's Silicon Valley, we benefit from our close proximity to some of the largest publicly traded tech companies and hundreds of smaller private companies.

While CES has historically been dominated by more mature tech companies, we met with founders of several companies that are still operating "out of the garage" so to speak, and hoping to secure their first round of financing. In addition, we maintain close ties to the Silicon Valley venture capital community, which helps us understand where up-and-coming enterprises are putting their money.

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What Are the Risks?

All investments involve risks, including possible loss of principal. The value of investments can go down as well as up, and investors may not get back the full amount invested. The technology industry can be significantly affected by obsolescence of existing technology, short product cycles, falling prices and profits, competition from new market entrants as well as general economic conditions.

¹. Sources: CES/Consumer Technology Association, "Here's What You Can't Miss at CES 2019," 5 January 2019.

². Source: South China Morning Post, "Chinese companies cool on annual CES Vegas tech show amid trade war and economic uncertainty," 6 January 2019.