

A summary of AI disruption and opportunity: A sector-by-sector guide for entrepreneurs

Transformational Innovation Opportunities (TRIO): Artificial Intelligence

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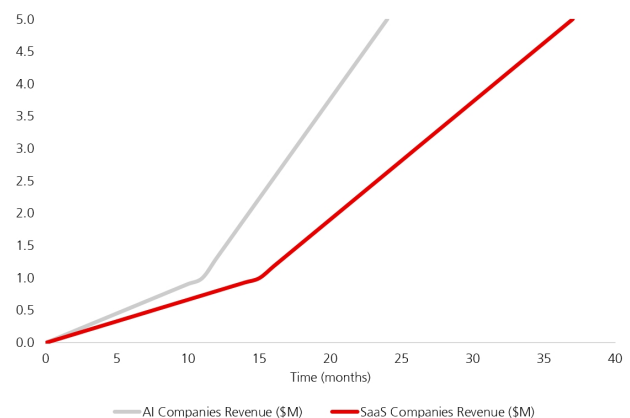
- Generative artificial intelligence (genAI) has the potential to transform industries. We view this technology transition as a platform shift, owing to the underlying performance of the technology and its ubiquitous applicability.
- As use cases continue to be defined, we see genAI broadening outside of the technology sector to have wide-reaching implications. Moreover, entrepreneurs need to remember that the underlying technology is improving at a rapid pace and being embraced by new industries. We believe underlying model improvements will expand the total addressable market of genAI.
- We believe culture will be a key determinant as to which firms capture the value from genAI rather than be disrupted by it over the long term. In the near term, we're monitoring to see whether the scaling laws are holding.



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Artificial intelligence (AI) is enabling productivity gains for knowledge workers—high-level workers who apply theoretical and analytical knowledge, acquired through formal training, to develop products and services—globally. Its impact is expected by many to surpass that of the internet, creating major investment opportunities as well as business gains in the coming decades. This trend is fueling significant capital investment in AI infrastructure, particularly data centers, and it's supported by ongoing improvements in AI models and strong monetization in various sectors despite its early stage of development. We see the most attractive investment opportunities in the enabling layer of generative AI (genAI), which we define as AI-linked semiconductors and cloud computing platforms.

Fig. 1: AI vs. SaaS – time to scale: Median time to USD 5mn in annual recurring revenue in months



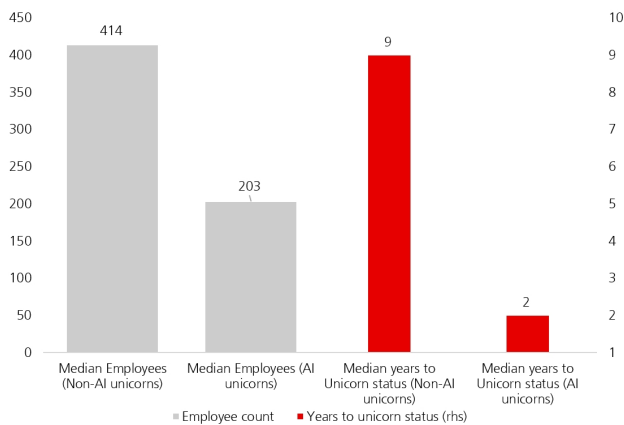
Stripe 2024 Annual Letter, UBS estimates

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For entrepreneurs, AI can offer scope for startups to scale and disrupt incumbents. Building AI infrastructure hasn't been disruptive on the supply side due to the consolidation within the semiconductor and cloud computing industries, as well as the capital intensity of developing AI technology. However, the usage of AI should create new markets and opportunities for startups. This is demonstrated by the speed to scaled revenues for new AI startups: The average AI startup on Stripe has reached USD 5 million in annual recurring revenue in 24 months, versus 37 months for SaaS (software-as-a-service) startups (see Fig. 1). AI startups have also been able to reach unicorn status with fewer employees and in a shorter time overall than non-AI companies (see Fig. 2). We therefore see many opportunities for AI-native startups.

Below, we summarize the impact we see from genAI on certain key sub-sectors. We expect some of the biggest impact to be in the technology, communication services, financial, and health care sectors over the long term. Download the [full report](#) for more insights.

Fig. 2: AI vs. non-AI unicorns



Source: CB Insights, UBS estimates

Automobiles

AI is poised to impact the automotive industry across its entire value chain, in our view, from R&D to after-sales services. The primary effects will likely be reduced costs and lower entry barriers, with limited immediate revenue opportunities. We believe autonomous driving technology presents the greatest opportunity, though achieving full automation faces significant legal and technological challenges. Moreover, the productivity gains from AI could be substantial, particularly in product planning, sales, and pricing.

Communication services

Generative AI presents diverse opportunities across the communication services sector, in our view. Interactive media companies are leveraging AI to enhance user engagement and boost advertising revenue through increasing engagement and conversion measurement. The technology could modestly improve sector margins. Internet companies, which already utilize AI extensively, may see limited margin gains. Media and entertainment firms could achieve cost savings from AI-generated content. Telecom companies should be largely unaffected by AI, except for the benefits to customer service. The industry structure within communication services should remain stable

Consumer staples

AI is enhancing productivity in the sector by improving production efficiency, sales planning, and supply chain management, leading to reduced costs and faster deliveries. Real-time quality control, automation of repetitive tasks, and better system integration can further enhance efficiency and product consistency. Additionally, AI-driven consumer connectivity enables quicker innovation and adaptation to market trends, ultimately increasing revenue and customer loyalty.

Financials

We believe AI presents significant cost-saving opportunities for the financials sector, particularly in IT and personnel. With regard to revenues, AI-driven opportunities can arise from enhanced client interaction, new product development, and market expansion. AI chatbots and virtual assistants can offer 24/7 support, increasing cross-selling and upselling. However, increased competition from fintech firms may pressure margins.

Health care

AI's role in drug research aims to shorten the drug discovery cycle and improve success rates from discovery to FDA approval. AI can enhance R&D efficiencies, such as patient recruitment and regulatory interactions. Furthermore, it could improve health care services by facilitating better data use for diagnoses, treatment algorithms, and cost reduction.

Information technology

We view genAI as the defining technology trend of the decade, with the information technology sector—especially software and semiconductor industries—well positioned to benefit, while hardware and IT services may face disruption. The US IT sector is likely to see above-average growth due to its early lead, but AI advancements should ultimately support companies worldwide, including in Asia and Europe. Overall, we expect AI to drive mid-single-digit percentage earnings growth for the global IT sector in the coming years.

Appendix

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