AI disruption and opportunity

A sector-by-sector guide for entrepreneurs

Chief Investment Office GWM Investment Research

UBS

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Authors:
Achille Monnet, Kevin Dennean, Sundeep Gantori, Delwin-Kurnia Limas

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Contact:
ubs.com/cio

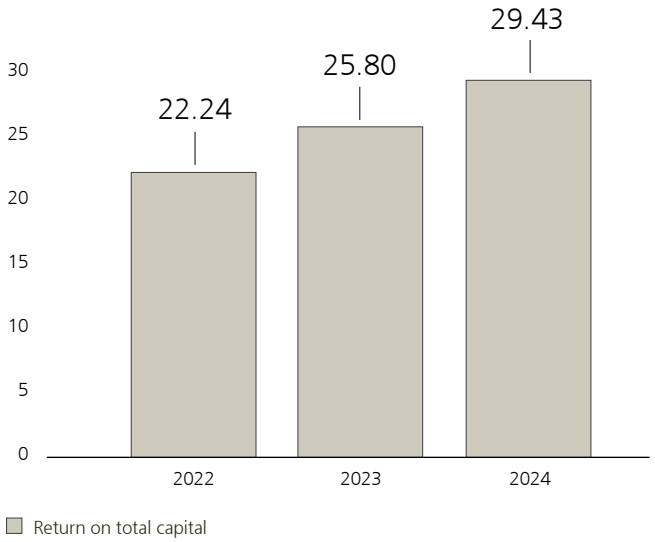
Introduction

- 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.

The range of problems that artificial intelligence (AI) can address keeps growing, enhancing the productivity of knowledge workers every day[1]. With 1 billion knowledge workers worldwide, the productivity gains could easily surpass that of the internet—possibly making it one of the biggest investment opportunities over the next decades. The potential of this new productivity boom has kicked off a capex cycle to build AI data centers that will likely surpass the size of traditional data centers in the next few years. We view these investments as sustainable, given the rate of underlying model improvements is expanding the long-term revenue potential of this technology at an accelerating rate. Moreover, we see the early returns on investment data points as healthy and would note that, in fact, the average return on total capital across the Big 4 (Alphabet, Amazon, Meta, and Microsoft) grew from 22% in 2022 to 29% in 2024 (see Figure 1).

Figure 1

Big 4 average return on total capital 2022-2024
in %



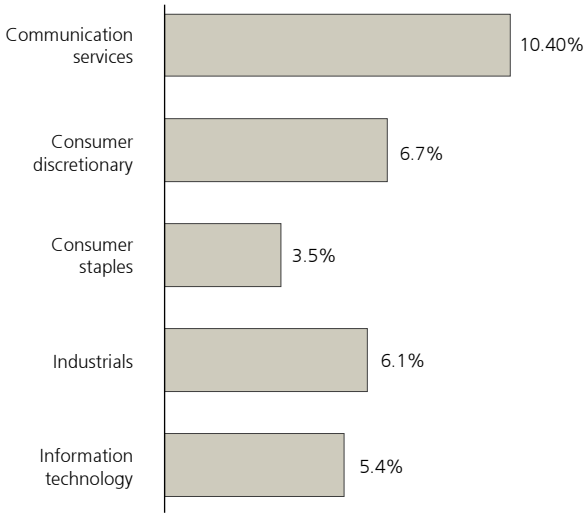
Source: Factset, UBS estimates, company reports

[1] High-level workers who apply theoretical and analytical knowledge, acquired through formal training, to develop products and services

Figure 2

Annual growth in revenue per employee for each of the sectors in scope

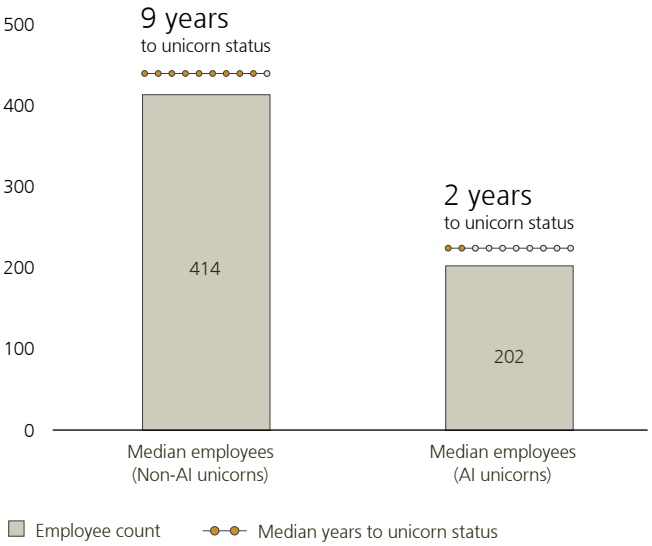
For the companies in the S&P 500. In % change for 2022-2024



Source: Refinitiv, UBS estimates

Figure 3

AI vs. non-AI unicorns



Source: CB Insights, UBS estimates as of December 2024

Across the sectors, we also see good growth in productivity as measured by revenue per employee over the 2022-24 period. Indeed, all major sectors saw healthy annualized growth in this metric (see Figure 2), which we view as partly driven by AI—particularly in the TMT (technology, media, and telecommunications) sectors, as these are the first to be exposed to genAI—and as a strong indicator of AI's potential.

The early superpowers of the LLMs (large language models) include coding, digital advertising, and customer care. On coding and digital advertising: Alphabet disclosed several quarters ago that its internal genAI models are now writing 25% of all their engineers' code, whereas Meta has announced that genAI models have increased engagement on Facebook and Instagram by 6% and 8%, respectively, as well as conversion by 7%.

We continue to view the enabling layer, which we define as AI-linked semiconductors and cloud computing platforms, as the most attractive positioning within genAI as the pace of infrastructure buildout should continue to be supported by AI model improvements and monetization. We also see less disruption risk on the enabling layer given the consolidated nature of the industry, attractive valuations, and visibility into strong near-term growth. These should result in robust returns on investment and favor our top-down market estimate for a USD 1.1tr revenue opportunity across the enabling, model, and intelligence layers by 2027.

For private companies, we see greater potential in the application layer as genAI simplifies and empowers smaller teams to have outsized impact. We have seen faster time to significant revenues, smaller teams achieving unicorn status, and fewer years to achieve unicorn status for AI native startups (see Figure 3).

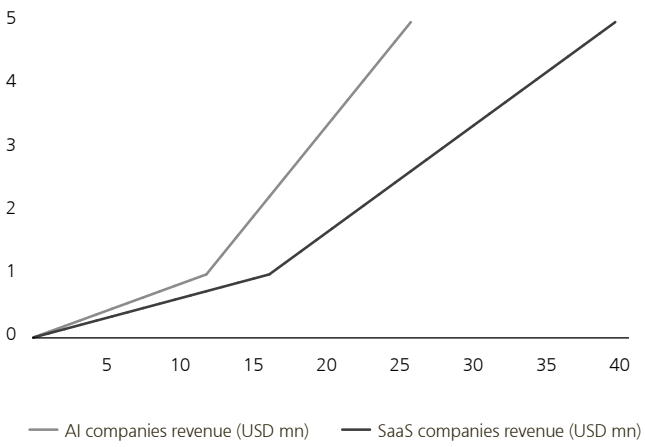
For entrepreneurs, we expect the usage and implementation of genAI to offer more scope for startups to scale and disrupt incumbents. Building genAI infrastructure hasn't been disruptive on the supply side. This is largely due to the consolidated nature of semiconductors and cloud computing platforms as well as the capital intensity of developing genAI leading-edge technology. Indeed, the pre-training, post-training, and test-time compute scaling laws mean that building genAI (as opposed to using it) is reserved for the most well-capitalized businesses.

However, the usage of genAI should create new markets and thus potential for start-ups and entrepreneurs. We also note that the speed to scaled revenues for new genAI startups has strongly exceeded SaaS (software-as-a-service) startups from 2018 (see Figure 4). With the average AI startup on Stripe reaching USD 5mn of annual recurring revenue in 24 months versus 37 months for SaaS, this speed to scale represents a compelling opportunity for entrepreneurs, in our view.

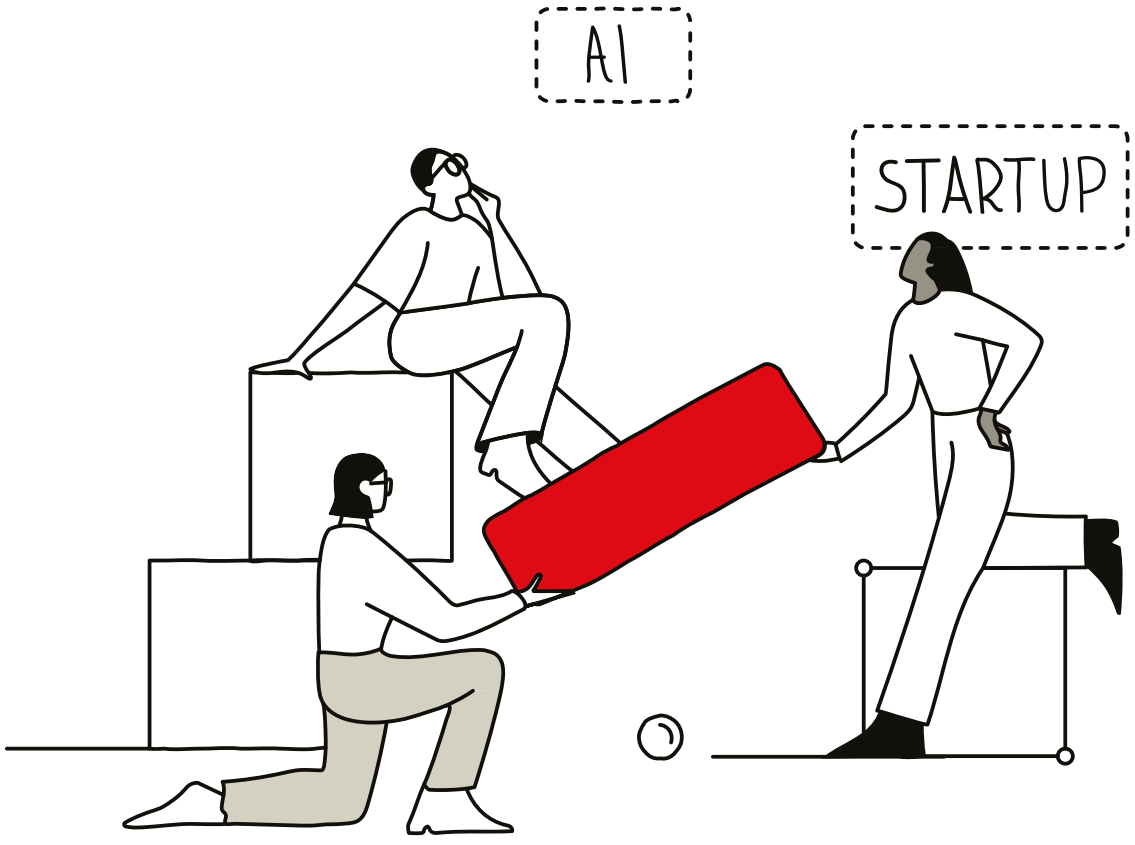
Thus far, the benefits of genAI have been relatively concentrated, as those incumbents building the technology are also the first and best positioned to capture the value of genAI. We expect this to broaden as the cost of AI inferencing continues to fall. We would note that Deepseek represents an attractive development in this regard. Below, we summarize the main long-term implications that we see for genAI across most sectors. We expect some of the biggest impact to be in the technology, communication services, financial, and health care sectors, among others.

Figure 4

AI vs. SaaS companies time to scale to USD 5mn of annualised recurring revenue (ARR) in months



Source: Stripe 2024 Annual letter, UBS



Sector overview

Automobiles

Generative AI is poised to impact the automotive industry across its entire value chain, from R&D to after-sales services. The primary effects will be reduced costs and lower entry barriers, with limited immediate revenue opportunities. The industry faces only temporary margin improvement because of intense competitive pressure as well as new entrants like Chinese companies and potentially tech firms. Suppliers face intense price competition, keeping margins low despite productivity gains, and AI is unlikely to change this significantly.

Revenue opportunities from AI are limited, with in-car entertainment features offering some potential, though consumers may prefer their handheld devices. We believe autonomous driving technology, particularly full self-driving (FSD), presents the greatest opportunity, as vehicles already have the necessary hardware. However, achieving full automation (level 4 for personal vehicles and level 5 for robotaxi services) faces significant legal and technological challenges.

AI-driven productivity gains could be substantial across the value chain. Auto companies spend heavily on R&D, and generative AI could enhance design and R&D efficiency, reducing expenses over time. AI could further optimize production processes, purchasing, and logistics planning. While the impact on the blue-collar sector is likely limited, white-collar sectors could see significant efficiency gains, particularly in product planning, sales, and pricing. Predictive power could improve repair assessments and spare parts planning, while personalized marketing could enhance sales campaigns.

For consumers, software increasingly shapes vehicles more than hardware. Autonomous driving technology and entertainment systems now play a key role in purchasing decisions. Virtual and augmented reality may enhance navigation, and voice-controlled systems are becoming common. Privacy and data security concerns are becoming paramount as modern cars generate vast amounts of data.

AI is primarily a cost-efficiency tool, potentially lowering costs across the value chain. Electric powertrains have reduced industry entry barriers, benefiting disruptors from Asia. However, AI could disrupt these disruptors, as incumbents leverage technology to improve their competitive positioning. Companies could see their market share leads quickly competed away, maintaining pressure on pricing and margins.

Communication services

Generative AI presents diverse opportunities across the communication services sector. Interactive media companies are leveraging AI to enhance user engagement and boost advertising revenue, positioning them as beneficiaries in the coming years. Conversely, the media and entertainment industry faces challenges, as potential cost savings from AI may be countered by declining viewership and engagement. Telecom companies remain largely unaffected by generative AI other than the benefits to customer care servicing. However, within the telecom industry, we expect most of the value accrued from AI to flow to the consumer.

AI offers new revenue opportunities, particularly for internet companies, through increased engagement monetized via advertising. However, entertainment companies may experience mixed trends; while AI can aid in creating compelling content, it may also democratize content creation, posing challenges for media and entertainment firms. Traditional media may continue to be overshadowed by online content.

Generative AI could modestly improve sector margins. Internet companies, already utilizing AI extensively, may see limited margin gains. Media and entertainment firms might achieve cost savings from AI-generated content, but these could be offset by reduced revenue. Telecom companies might experience slight margin improvements through AI-enhanced customer care.

We expect the industry structure within communication services to remain stable. The internet industry, already concentrated, may benefit from scale effects. Generative AI could lower entry barriers for media and entertainment, aligning with Web 2.0 and internet adoption. The telecom industry, a competitive industry, is unlikely to be reshaped by AI.

Overall, the communication services sector should modestly benefit from AI adoption. The internet industry, a major revenue and profit contributor, stands to gain, while media and entertainment may face limited headwinds.

Consumer staples

AI is enhancing productivity in the consumer staples sector by driving production efficiency, sales planning, and supply chain optimization. It aids in tracking inventory, predicting demand, and improving shipment routes, which minimizes waste and optimizes logistics, leading to reduced transportation costs and improved delivery times. AI-powered quality control ensures consistent product quality through real-time monitoring. Automation of repetitive tasks and better-integrated systems result in cost reductions and improved efficiency. For instance, Carrefour uses AI to predict demand accurately, reducing excess inventory and food waste, saving 5 million croissants in a year. Beverage companies like Heineken and Coca-Cola European Partners use AI to enhance market routes, while Unilever optimizes design and manufacturing through virtual simulations and data-driven decisions.

AI also opens new revenue opportunities by enabling companies to understand consumer behavior better and cater to changing needs. Personalized marketing, driven by AI algorithms, targets specific customer segments with tailored promotions, enhancing customer satisfaction and loyalty. Insights into consumer preferences help identify emerging opportunities and drive relevant product innovation. For food retailers, AI's main revenue opportunity lies in retail media, leveraging first-party data collected through loyalty programs for advertising and marketing campaigns. This connectivity with consumers fosters better product innovation and faster adaptation to market trends, ultimately boosting revenue and customer loyalty.

Energy

Generative AI offers the energy sector operational and cost efficiencies, with indirect revenue opportunities from increased energy demand for AI data centers. AI's role in exploration and production services enhances operational performance and pricing power, particularly in oil field services. AI applications in subsurface geologic analysis, well design, and production efficiencies improve productivity. The energy industry, accustomed to complexity, faces limited challenges in AI integration, which may slow operational efficiency gains. AI could disrupt the sector by advancing energy efficiency and alternative energy sources, accelerating the shift towards lower-carbon-intensity energy systems.

Financials

Generative AI presents significant cost-saving opportunities for the financial sector, particularly in IT and personnel, which constitute a large portion of expenses. Accenture estimates that over two-thirds of US financial sector workers are in roles with high automation potential. A 10% reduction in bank personnel costs could improve return-on-equity by about 100 basis points, according to S&P Global Ratings. We expect AI to enhance productivity rather than replace humans, with varying effects across companies based on scale, profitability, and digital readiness. North American financials lead in AI adoption, while European and Japanese firms are increasing investments. We also note that recent anecdotal proof points of AI monetization within financials suggest healthy trends. Indeed, KBC talked about its "Kate" platform and how it is already reducing human intervention in the mortgage and credit card processes—with the aim to increase the autonomy rate from 70% to 80% in the next version. KBC also mentioned that it is developing "intent factories" to proactively anticipate customer needs through data analysis. ING also discussed genAI, noting that 60% of its customer interactions today involve genAI. Other areas that were mentioned by several banks are genAI being used in the anti-money laundering due diligence process and obviously in coding. Finally, BNP quantified the anticipated AI impact by announcing a EUR 750 million AI value creation target by 2026, with half derived from cost efficiency and the other half from revenue generation.

AI-driven revenue opportunities arise from enhanced client interaction, new product development, and market expansion, benefiting corporate and retail banks. AI chatbots and virtual assistants offer 24/7 support, increasing cross-selling and upselling. In insurance, AI aids in risk assessment, fraud detection, and cost reduction. However, increased competition may pressure margins.

Challenges to AI integration include legacy technology, cultural shifts, and the need for transparency in AI outputs. Fintech disruptors pose a threat, with low barriers to entry in some markets. AI's complexity may raise regulatory concerns, potentially leading to fines. AI is expected to be highly disruptive, transforming business models and operations. Large firms with capital can invest in AI, gaining a competitive edge, while others may face consolidation due to inefficiencies.

Health care

AI's role in drug research aims to shorten the drug discovery cycle and improve success rates from discovery to FDA (Food and Drug Administration, US federal agency) approval. While biopharma companies are increasingly discussing AI's role, tangible achievements remain limited. DeepMind's AlphaFold predicts protein structures, potentially aiding drug candidate identification. However, AI-driven drug discovery platforms have yet to significantly increase viable drug candidates. AI enhances R&D efficiencies, such as patient recruitment and regulatory interactions, but doesn't represent a productivity step-change. If AI becomes standard, costs may be absorbed within existing R&D budgets, favoring larger companies with more budget for technology. Specifically, genAI could be used to drive efficiencies in R&D within drug discovery processes such as in Oncology. Figure 5 shows the main drivers of Oncology R&D costs as an example of where genAI can be used.

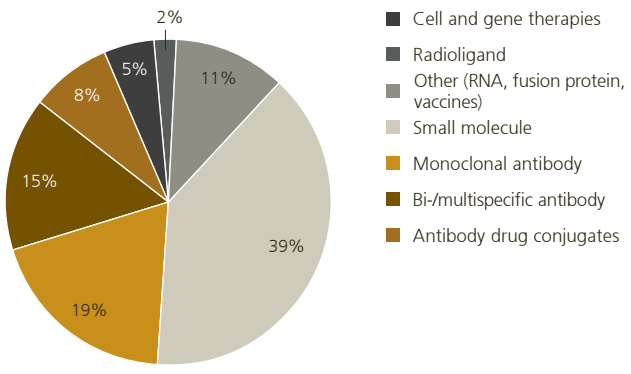
AI's impact on health care revenue is limited, as drug costs are a small part of health care spending, constrained by payer budgets. GenAI could improve health care services by facilitating better data use for diagnoses, treatment algorithms, and cost reduction. Benefits may accrue to payers, potentially affecting wages, benefits, or taxes. Medtech companies use AI for diagnostics, but pricing benefits are unclear. GenAI could lead to value-based pricing, targeting therapies more effectively, potentially increasing per-person treatment costs but lowering aggregate industry volume. Barriers include health care regulation, data control, and anti-trust concerns.

The sector is unlikely to be an early AI beneficiary, with little current value ascribed to large-cap health care stocks for AI efforts.

Figure 5

Oncology R&D pipeline by modality

Total number of Phase 1-3 trials as of 2023 (n=1924)



Source: IQVIA

Industrials

The industrials sector, encompassing a wide range of industries, is set to benefit positively from AI, enhancing both top-line innovation and bottom-line cost reductions. In the capital goods sector, AI has been utilized for years to process data from equipment with embedded sensors, predict maintenance intervals, and optimize manufacturing processes. This has led to higher factory uptime and reliability, with value shared between users and equipment providers. John Deere's See and Spray technology, which uses AI to reduce herbicide use by 77%, exemplifies AI's potential. AI-driven robots offer predictive maintenance and autonomous decision-making, enhancing mass manufacturing efficiency. The next development phase is poised to streamline internal productivity in areas like back-office tasks and product design, akin to enterprise resource planning systems. AI's role in data center infrastructure is significant, with UBS expecting 15-20% growth in demand for electrical equipment in 2024-25. The professional services sector faces disruption, with AI reducing workforce needs and affecting pricing.

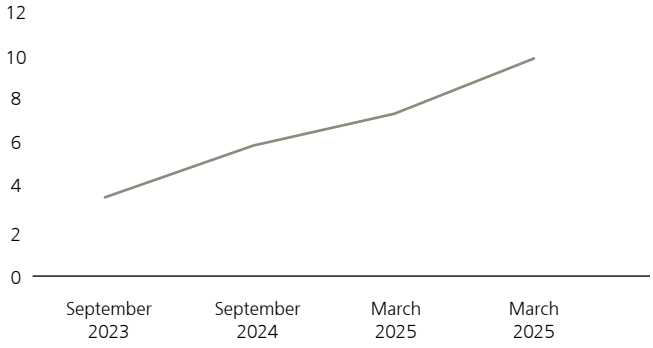
AI also presents new opportunities in outsourcing labor-intensive services, as companies with professional AI chatbots gain a competitive edge. The credit bureau industry benefits from AI's data-driven decision-making capabilities, enhancing credit scoring and risk models. The staffing industry integrates AI in candidate matching and job description writing. In transportation, AI optimizes fleet management, route planning, and customer service, offering cost savings and improved customer experiences. Airlines can reduce costs by optimizing flights in real-time, while AI personalizes the customer journey during booking and flights.

The construction sector, challenged by standardization issues, can leverage AI for productivity gains in building design and information technology. AI's potential for predictive maintenance and cost reduction is notable, though its revenue impact remains neutral in the short to medium term. Overall, we expect AI to drive sales through value-added products and improve processes, positioning the industrials sector as a long-term beneficiary of AI applications.

Figure 6

Steady growth in US adoption rates

AI adoption across 1.2 million firms in the US



Source: Business Trends and Outlook Survey (BTOS), US Census Bureau, UBS as of April 2025

Information technology

Generative AI is poised to be the tech theme of the decade, with the information technology sector offering prime exposure to this trend. While lower-margin hardware and IT services industries face long-term disruption risks, higher-margin software, and semiconductor industries stand to benefit significantly from generative AI, positioning the sector favorably. The US IT sector, with its first-mover advantage, is expected to experience above-average growth, though AI trends will eventually benefit companies globally, particularly those in Asia and Europe. AI is anticipated to drive mid-single-digit percentage earnings growth for the global IT sector in the coming years.

Semiconductors have seen a strong rally, with AI accelerated investment in computing power, particularly in graphics processing units (GPUs), which are crucial for AI training and inferencing. This investment benefits logic semiconductors and other fields like memory, with high-bandwidth memory (HBM) offering market changes. The semiconductor equipment industry is poised for growth, driven by AI spending and demand for edge-AI computing.

AI can fundamentally transform software, affecting production and user interaction. The software layer of the computing stack is positioned to see significant value, with a forecasted USD 395bn AI applications market by UBS estimates. Foundational models from major tech companies can unlock new use cases, with data access providing a competitive edge. Software is seen as a medium-term beneficiary of generative AI, with increased monetization and price hikes. We are encouraged by the continued growth in AI adoption by enterprises as shown by Figure 6 (see above), where the pace of adoption remains strong and steady.

While hardware and IT services face long-term disruption risks, they should benefit in the near term from AI-driven hardware refresh cycles and consulting opportunities. Generative AI could automate functions like coding and testing, affecting IT services, but integration offers immediate opportunities.

Materials

The materials sector, primarily involving raw and intermediate materials production, is expected to see marginal revenue impact and modest cost productivity gains from AI, with benefits quickly competed away in commoditized markets. In chemicals, AI's role in streamlining prototyping and production may reduce costs temporarily, but structural gains are limited as companies vie for market share. Larger players benefit from scale and lower costs. Downstream companies may use AI to identify chemical compounds, shifting market share without significantly affecting demand. In metals and mining, AI's impact is neutral, though tools for resource modeling and autonomous machinery offer interim benefits. Investments in AI infrastructure may boost demand for metals like copper and aluminum, supporting a potential upcycle as supply aligns with future demand.

Real estate

AI offers significant opportunities for the real estate sector, particularly for data centers, which are poised to benefit from increased demand due to AI's extensive data processing requirements. However, the implementation of AI in real estate will be gradual, influenced primarily by cost considerations. Data centers also face challenges regarding access to power and water. In addition to that new data centers development is hindered by delivery delays and regulatory issues. Beyond data centers, the impact of AI on other real estate subsectors, such as logistics, retail, self-storage, residential, health care, and offices, remains uncertain. Investment costs and supply-demand dynamics are expected to play a more significant role than AI applications in shaping the future of these subsectors.

AI can enhance the sector’s marketing efforts by generating persuasive property descriptions, incorporating relevant keywords to increase visibility. However, this may lead to conflicts with copyrights and author responsibilities. The integration of AI with existing proptech solutions, such as smart contracts in facility management, will be gradual, focusing on cost savings and business growth. Companies that already exemplify the use of technology to gain market share demonstrate that rapid exploration of proptech and AI opportunities can provide a competitive edge.

Office demand in some areas where AI technologies are developed is increasing, driven by the need for space by AI development teams. And there is no evidence that AI will significantly reduce office space demand in the foreseeable future. AI's impact on jobs is likely to be minimal initially, as companies use AI to expand their business, requiring more staff rather than less. The real estate sector will continue to face challenges related to private data, copyrights, and information sources, with AI serving as an extension of existing proptech solutions.

Overall, we expect AI to be an evolution rather than a revolution in real estate, with big companies set to implement AI in their operations and strategic planning. Landlords and tenants will likely use AI alongside existing systems to optimize locations and forecast demand flows, adapting their footprint in strong regional markets.

Utilities

Generative AI is expected to significantly increase electricity demand, particularly for AI data centers, which require three to eight times more electricity than traditional centers. In the US, this could add 2-5% to annual electricity demand growth, a notable increase in a sector with stagnant growth for over three decades. This surge in demand will likely boost capital investment in electricity generation, transmission, and distribution infrastructure. However, due to the regulated nature of the electric utility industry, the benefits from rising demand may be limited. Utilities, regulated based on allowed returns on investment, could see modest earnings benefits from increased capital spending to meet AI data center demands.

Unregulated generation companies stand to benefit more directly from rising electricity prices and demand, particularly in the wholesale market. AI data centers are expected to accelerate renewable energy infrastructure development, as developers seek to offset electricity demand with renewable power. This trend should create opportunities for renewable power developers. Regulated utilities should benefit from increased electricity sales and infrastructure investments to meet new demand, alongside the global push for decarbonization and renewable energy expansion. However, benefits will likely be region-specific, depending on data center locations.

AI's impact on utility productivity is limited but could enhance grid operations, dispatch, and preventative maintenance. While AI may not significantly boost utility profit margins due to regulatory constraints, it could drive productivity gains through capital investment. Regulated utilities, operating as monopolies, are likely to be late AI adopters, as implementation requires regulatory approval. Overall, AI's growth will likely drive electricity demand and infrastructure development, benefiting utilities and renewable energy sectors.

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