

## Capitalizing on the AI revolution

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### ARTIFICIAL INTELLIGENCE: AN OAKLINS REVIEW OF MARKET TRENDS AND OPPORTUNITIES

Interest in artificial intelligence (AI) has reached a fever pitch. Since the launch of ChatGPT last November, the business community has become mesmerized by the potential of AI-enabled business applications.

“There’s been an explosion in these personal productivity tools,” said **John Matthews**, an Oaklins’ AI specialist, “and they are becoming the equivalent of the spreadsheet for the current generation.”

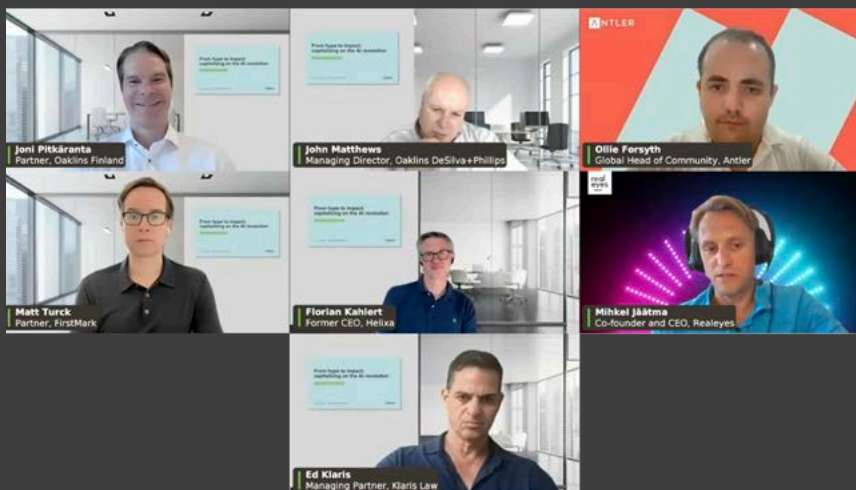
Matthews made his remarks as the moderator of a recent Oaklins webinar on the AI revolution. He noted that there are currently some 1,800 AI-enabled productivity tools on the market and that the technology’s ease of use, broad utility and flexibility had reached the point where “we’re all using it in our everyday lives.”

But Matthews also warned that this has led to a number of concerns regarding the accuracy of these applications

in some situations and the need to stay mindful of an emerging global and industry AI regulatory landscape affecting what will be the allowed use of these applications. Most importantly, he said, it has focused attention on the value of corporate data, and the question of how that data can best be monetized has taken center stage.

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#### Our AI webinar panel



Clockwise from top left:

**Joni Pitkäranta** (Oaklins Partner and enterprise SaaS Team Leader at Oaklins Finland, based in Helsinki), **John Matthews** (Managing Director with Oaklins DeSilva+Phillips, based in New York), **Ollie Forsyth** (Global Head of Community, Antler, based in London), **Mihkel Jäätma** (Co-founder and CEO of Realeyes, based in London), **Ed Klaris** (Managing Partner of Klaris Law, based in New York), **Matt Turck** (Partner at FirstMark, based in New York), and **Florian Kahlert** (Former CEO of Helixa, based in New York).



## GENERATIVE AI

Citing research from S&P Global Market Intelligence, Matthews said that the generative AI market is expected to grow ninefold over the next five years, from nearly US\$4 billion at present to more than US\$36 billion by 2028.

Generative AI refers to applications that produce various types of content, including text, images, audio, video and computer code. The recent buzz around this sector of the artificial intelligence market has been prompted by the simplicity of the latest tools for creating

high-quality text, graphics and videos in a matter of seconds. The fastest-growing segment of the generative AI market is code generators, with a projected CAGR of 73% over the next five years. In comparison, text generators, the slowest-growing segment, will expand at the less torrid but still impressive CAGR of 50%.

“Right now,” Matthews said, “we’re in the early stages, and we see the largest opportunities for growth. But it’s also the time when there’s the most risk, because it’s early in the investment cycle.”



**MATT TURCK**  
Partner at FirstMark



**JOHN MATTHEWS**  
Managing Director  
Oaklins DeSilva+Phillips

**The generative AI market is forecast to grow ninefold over the next five years to US\$36 billion by 2028.**

Matthews then turned to the first of the webinar panelists, **Matt Turck**, a partner at FirstMark, a New York-based technology venture capital (VC) firm. The VC investor began by explaining that all the current excitement in the AI space is actually a reflection of a much larger trend that’s been percolating for the past 20 years:

the rise of data-powered applications in enterprises and beyond. These include big data, automation and deep learning, as well as generative AI.

As with other data-driven applications, Turck said, “for an enterprise to adopt any kind of AI strategy, it first needs to have its data house in order.” This, he continued, means the company needs to be able to collect its data in a data repository, such as Snowflake or Databricks, and then sequence and extract it in a way that’s compatible with the company’s machine learning model.

### JUSTIFIED HYPE?

But Turck also allowed that the hype surrounding ChatGPT and other AI-enabled productivity tools may actually be justified, given their potential benefits once businesses integrate the technology into their operations.

“This is a moment,” he remarked, “when the entire herd has moved over and focused on AI.” But from an investor’s perspective, “it’s very difficult to tell these AI companies apart. There’s a massive influx of startups that are less than six months old, and they’re all trying to do the same thing,” Turck lamented. That has led VC investors like himself to take a step back and let the dust settle, before committing large sums of capital. Over the next six months to a year, he said, “hopefully some of the better companies will start to emerge and begin releasing products that their customers will actually use.”

At the moment, Turck added, prices and valuations for all generative AI companies are rapidly increasing, as they receive their initial rounds of funding. But inevitably, over the next couple of years, there will be a significant consolidation, as some of these companies fail to get traction and are forced to find a home with those that do.

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**Currently, prices and valuations for AI companies are rapidly increasing, but a major consolidation is coming.**

At this point, Matthews introduced two more panelists, **Ed Klaris**, the Managing Partner of New York-based Klaris Law, and **Ollie Forsyth**, the Head of Global Community for London-based Antler.

### LEGAL CONSTERNATION

Klaris’ law firm specializes in IP law and works with a wide range of media, entertainment and other content-producing companies.



**ED KLARIS**  
Managing Partner  
of Klaris Law

Today, he noted, virtually all content is digital and created with the use of very sophisticated technology, including an emerging set of tools that help predict content uptake and audience engagement. Another example is software used by television and movie studios to generate digital avatars of actors. An avatar can then be used in lieu of the actor, who can appear in a film without ever setting foot inside the studio.

But, Klaris continued, the use of generative software to produce content is hardly new, and emphasizing that this software is now AI-enabled just shifts the focus away from the content that’s created to the technology that’s used to create it. This has led to a situation where, instead of allowing content to be quietly generated — as it has been for decades with tools like CGI and Photoshop — government regulators, along with judges and legislators, have become increasingly concerned that AI-generated content is created without direct human involvement and isn’t eligible to be copyrighted.

That’s the current position of the US government, which maintains that any machine-generated content isn’t copyrightable and must remain in the public domain. The European Union focuses more on who owns the data that was used to feed the AI algorithm, but for content creators the outcome is the same: a murky legal situation that, in Klaris’ view, has become far more treacherous than it should be.



**OLLIE FORSYTH**  
Global Head of Community  
at Antler

Generative AI is also being used to develop computer source code, which has given rise to similar legal issues. According to the US law, Klaris explained, software code written by a human being can be copyrighted, but code generated by a software algorithm falls into the public domain. The attorney insisted, however, that this overlooks an important distinction: “AI software that helps the content creator produce something should be treated like any other tool — a video camera for instance — as long as the creator can predict what the tool will produce,” he maintained. “If the content is predictable, it’s protectable and the creator should be the copyright holder. If, on the other hand, what comes out of the tool is unpredictable, then that content is not protectable and cannot be copyrighted.”

### NEW MARKETS AND APPLICATIONS

Forsyth is an expert in the AI market who seeks out opportunities for Antler, a London-based investment firm that works with startups worldwide. Currently, it is backing around 40 companies in the generative AI space. Outside the US, Forsyth noted, India has become a massive market for the technology, followed by Israel.

For content creators in these and other countries, one of the key challenges that generative AI is helping them overcome is bridging the language

“Some people call this artificial intelligence, but the reality is this technology will enhance us. So instead of artificial intelligence, I think we’ll augment our intelligence.”

**GINNI ROMETTY, FORMER AND THE FIRST WOMAN CHAIRMAN AND CEO OF IBM**

barrier across different national markets. Until recently, as Forsyth explained, a content developer that speaks one language could only develop content for markets that speak the same language. Translating that content for markets that speak other languages has been a costly and time-consuming undertaking, severely limiting many developers’ international reach.

With generative AI, however, creators can now develop content for the international market right from the start by immediately translating content prepared in one language into any other language. “This,” Forsyth said, “is a game-changing development.”

### Only one in four content developers are currently making use of generative AI.

In spite of the advantages, Forsyth noted that only one in four content developers are making use of generative AI. He expects the number to rapidly swell, however, as case studies become available and more creators recognize just how valuable the technology can be.

Forsyth also pointed to another enormous potential market for generative AI: e-commerce. Consumers, he observed, spend a tremendous amount of their time and energy shopping for goods and services. In the near future, however, new generative AI applications will make this process much more efficient, by automatically recognizing those products that someone would want to have in his or her home or wardrobe, and then showing the consumer what those items

would look like in his home or on her person. This, Forsyth predicted, will quickly lead virtually every business to make use of the technology.

Keeping up with all the new AI applications is a huge challenge, Forsyth admitted, noting that the number of generative AI companies has soared from 200 or 300 six months ago to over 1,500 today. But, echoing Turck’s earlier comments, he added that such rapid proliferation can’t be sustained for long and will likely lead to a winnowing and sector-wide consolidation by the end of the year.

### DATA IS THE NEW OIL

Oaklins’ **Joni Pitkäranta**, an expert in the enterprise software as a service (SaaS) market and the webinar’s co-moderator, then returned the conversation to Turck’s earlier point that to truly take advantage of AI, a company must first assemble a strong data set that it can draw on. Pitkäranta said he assumed that the other panelists were familiar with the notion that “Data is the new oil,” and then asked them how companies could best monetize their proprietary data.



**JONI PITKÄRANTA**  
Partner  
Oaklins Finland



**FLORIAN KAHLERT**  
Former CEO of Helixa

**Florian Kahlert**, the former CEO of Helixa, responded that if a company doesn’t own its own data, it’s doomed to remain a commodity business dependent on other companies’ data. “Then,” he said, “if those companies change their minds, which they often do, or simply go away overnight, you are left with nothing. Proprietary data,” Kahlert asserted, “is key to value creation and represents an incredible opportunity.”

### The number of generative AI companies has soared from 200 six months ago to over 1,500 today.

Drawing on his experience at Helixa, which uses AI to help businesses gain a deeper understanding of their customers’ behavior, Kahlert cited the ways in which retailers are using their data to predict future purchases and direct their advertising, as a case in point. “Where it becomes truly interesting,” he went on, “is when you use data to make predictions that are not so obvious. But, unless you’re an Amazon, your



proprietary data is probably very focused on the narrow confines of your own business, and this limits your ability to predict things that occur outside your business in adjacent markets.”

This, Kahlert said, is where AI comes to the fore. To overcome its blind spots, a company needs to work with data sets other than its own, and AI is an invaluable tool for linking those data sets and enlarging the company’s view of the market and the possibilities it presents. Using AI in this way, he declared, “is really a massive opportunity for companies to broaden their scope, make better business decisions and expand into new markets.”

Implicit here, Kahlert added, are the implications concerning the type of data scientists and machine learning specialists a company should hire. While acknowledging that talent shortages make it quite difficult to find people with these skill sets, the AI executive said that even smaller companies should still try to strike a balance between recruiting visionaries who want to push the envelope of what AI can do, and pragmatists who recognize that an AI application is only useful to an enterprise if it is affordable, efficient and can be scaled to meet demand.

One provider of supplementary data sets and AI solutions for interpreting them is London-based Realeyes. **Mihkel Jäätma**, the company’s CEO, noted that whereas six months ago no one even thought to ask the question, today the first thing a prospective client asks his company is, ‘where did your training data come from?’ This kind of awareness, he said, represents a sea change in people’s thinking about the role and importance



**MIHKEL JÄÄTMA**  
Co-founder and CEO of Realeyes

of proprietary data, and the legal issues involved in its use.

### THE MORE DATA THE MERRIER

AI performance, Jaatma pointed out, is largely a function of how much data was used to train the algorithm. “Size does matter,” he quipped, “but so does quality.” The greater the diversity of the sampling data, he said, and the more recently it was collected, the more accurate and robust the algorithm’s predictions will be.

Generative AI, Jaatma added, will change how people engage in certain activities in fundamental ways. Customer service, for example, will get a complete makeover as the next-generation chatbots that are even more sophisticated than ChatGPT emerge. These AI agents “will appear to be people and interact with users as if they were,” he told the webinar audience, “except they will be much more effective than the actual people who provide customer support today.”

The next generation of **AI chatbots will appear to be people** and interact with users as if they were.

For the customer, Jaatma said, this will no longer mean having to go through the frustration of being transferred to five different departments and 10 different people before their issue gets addressed. “It’s really a question of using AI not to do the old things better,” he argued, “but to find new and better ways of doing them.”

In the view of FirstMark’s Turck, the most successful generative AI companies going forward will be those that focus on well-defined use cases, such as core business functions like finance and human resources or industry-specific applications for vertical markets. Another example, he said, would be companies that provide so-called “last mile” solutions that enable businesses to use their proprietary data with a particular AI application.

But all agreed that one thing artificial intelligence won’t do — at least not any time soon — is supplant true human intelligence. “It doesn’t matter if the content is AI generated,” Kahlert insisted. “It will still have to be edited and curated by people with the necessary subject-matter expertise to verify that what the AI is doing is actually correct. Otherwise,” he said, “we will end up with three-legged chickens.”





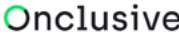














“Some people worry that artificial intelligence will make us feel inferior, but then, anybody in his right mind should have an inferiority complex every time he looks at a flower.”

**ALAN KAY, DEVELOPER OF THE GRAPHICAL COMPUTER INTERFACE**

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 <p>has been acquired by</p>  <p>M&amp;A SELL-SIDE</p> <p>Private Equity/TMT</p>	 <p>has been acquired by</p>  <p>M&amp;A SELL-SIDE</p> <p>TMT</p>	 <p>has been acquired by</p>  <p>A portfolio company of</p>  <p>M&amp;A SELL-SIDE</p> <p>Private Equity/TMT</p>
 <p>has been acquired by</p>  <p>M&amp;A SELL-SIDE</p> <p>Private Equity/TMT</p>	 <p>has sold a 60% stake to</p>  <p>M&amp;A SELL-SIDE</p> <p>Private Equity/TMT</p>	 <p>has been acquired by</p>  <p>M&amp;A SELL-SIDE</p> <p>Private Equity/TMT</p>

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Joni leads Oaklins' enterprise SaaS team and is a partner at Oaklins Finland. As part of his sector focus, he continuously follows market developments and maintains regular contact with the major players in this sector. Consequently, he has a deep understanding of the market dynamics and value drivers in enterprise SaaS.



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John is a managing director at Oaklins DeSilva+Phillips in New York. Coming to investment banking after a career in the technology and management consulting sectors, John has more than 10 years of investment banking experience advising sell-side and buy-side middle-market clients on M&A transactions. Notable SaaS-related transactions include the sale of Admeta to WideOrbit, and the sale of Helixa to Telmar.

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