

Market commentary of November 8, 2024

The big fish in the ocean of data: Why AI in healthcare favors the biggest players

Artificial intelligence is transforming the healthcare industry – although for now the mega caps are the ones benefiting the most from its deployment. These giant companies have the resources, the data, and the know-how to reap the biggest and best rewards that this technological revolution is bringing. Exactly how much potential does AI offer for the healthcare sector and what opportunities do the smaller players have?

By Marcel Fritsch, Portfolio Manager of the Bellevue AI Health Fund

The power of deep pools of data

The healthcare sector has a tremendous advantage when it comes to the use of artificial intelligence (AI): It has huge amounts of data and this data is essential when it comes to developing innovative AI-powered applications. As AI becomes increasingly anchored across the healthcare sector, major pharmaceutical and biotechnology companies such as Eli Lilly, Novo Nordisk and Amgen are attracting growing attention. AI-driven value added is currently heavily concentrated in mega and large caps, as these are the companies that already have the financial wherewithal and the vast datasets that are needed to actively pursue AI projects. By collaborating with tech giants such as Microsoft and Nvidia, healthcare companies are growing their AI capabilities and significantly shortening R&D cycles. These alliances spell new opportunities for personalized medicine and robot-assisted solutions – areas where smaller players are struggling to gain traction.

Artificial intelligence – an exclusive driver of competitive advantage

The dominance of American companies in the Bellevue AI Health Fund's portfolio can, to some extent, be traced to developments in the field of artificial intelligence, developments that reflect that country's tremendous capex power and AI-friendly infrastructure.

The US invests six times as much capital in medical research than the three largest European countries. Most of the major providers of AI technology – Nvidia, Microsoft, and Qualcomm, to name a few – are also based in the US, which facilitates collaboration and spurs further innovation.

Companies such as Roche and Novartis have demonstrated that European companies can nevertheless compete in the field of AI. Genentech (Roche), in collaboration with Nvidia, is relying on generative artificial intelligence (GenAI) to speed up diagnostics processes and the development of treatment solutions, while Novartis launched its AI Innovation Lab back in 2019. Novartis's goal here is to make CAR-T cell therapies for cancer immunotherapy even more precise and to customize treatments even better for each individual patient.

Emerging markets out of the picture – for now

The prospects of AI investments in emerging markets is an interesting question. Although India, Brazil and parts of Africa boast considerable IT expertise, there are hardly any companies from these countries in the portfolio of the Bellevue AI Health Fund. This can be traced to their low stock-market capitalizations and low rankings in the Bellevue AI Affinity Score, which serves as a valuation yardstick for the fund's investment activities. One exception is QuantumPharm, a company based in Shenzhen that specializes in AI and robotics for drug discovery and development and that we consider a promising pioneer, which is why it is in the fund's portfolio.

Emerging markets could, however, play a more important role at some point in the future, especially if the current high barriers to entry are reduced in the wake of declining technology costs. This could give small and mid-sized businesses better access to the necessary data and AI technology, and thus enable their greater participation in AI-driven healthcare market developments.

AI developments in niche markets

In the mid-cap segment, these two companies are interesting: Procept BioRobotics has taken a decisive position with its Hydros Robotic System for the resection of prostate tissue. Hydros is an AI-powered platform that surgeons use to map treatment planning, which is then carried out with single-use disposable handpieces, resulting in faster, safer, and more consistent treatment results regardless of surgeon experience. With nearly 450 robotic systems already installed, Hydros is in an excellent position to gain wide market acceptance thanks to the system's high degree of integration and simplified workflows. Dexcom has launched an innovative new product that enables it to target a new customer segment in the field of diabetes. With its recently approved Stelo glucose sensor, the company now offers a "wearable" solution for diabetics who are not on insulin. This sensor helps users to better understand the relationship between diet, exercise, and blood sugar levels. Stelo expands Dexcom's product portfolio beyond the insulin-dependent patient segment and broadens the company's target market.

Conclusion: Everything the same as before – or is it?

It is hard to think of an industry that is more suited or attractive for the deployment of artificial intelligence than healthcare. The copious amounts of data that are generated across the healthcare system day after day provide almost unlimited opportunities for personalized diagnostics, precision therapeutics, or more efficient clinical trials, for example. Large pharmaceutical and biotechnology companies can make the most of this big data thanks to their vast resources and experience in handling sensitive patient health information. AI helps them to identify complex patterns in large health datasets and thereby significantly increase the efficiency of their research and development activities. Examples of the revolutionary developments this has enabled are AI-powered analysis of medical images and identification of active ingredients for drug formulations.

While it may be challenging for smaller players to adapt to these new dynamics, they do offer them opportunities too – for example through collaborative arrangements and specialized niche applications that enable them to leverage the potential of AI without owning their own big data or having extensive resources at their disposal.

Click [here](#) for more information.

Contact

Bellevue Asset Management AG, Seestrasse 16, 8700 Küsnacht/Zurich,
Tanja Chicherio, tel. +41 44 267 67 07, tch@bellevue.ch, www.bellevue.ch

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