China Software: Mar revenues slowed to 11.6% YoY; Sequential growth in 2Q with rising spending on AI agents

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China software industry growth in Mar was +11.6% YoY (vs. Jan-Feb 2026/ Dec 2025 at +11.7%/ 11.7% YoY), slower than previous quarters, leading to aggregate **1Q26 revenues +11.6% YoY** (vs. 1Q25 at 10.5% YoY). Looking into 2Q ahead, we expect to see sequential QoQ growth post the 1Q weak season, and rising enterprise clients' spending on Gen-AI tools (sales/ marketing, productivity, manufacturing etc.). As we highlighted in Private Tech Tour report, we see accelerated monetization and expanding use cases of AI agents, for example, AI agents to retain experienced employees' know-how in-house, or diversify the production sites with higher efficiency. For ToC, we see users leverage multi-modal AI models to generate content, and adopt personal AI assistants on daily basis (e.g. search file, chat etc.).

We monitor AI product momentum, SMB PMI data, company hiring, profitability, and product iteration to track the path of software spending recovery in China. By segment, semi design, IT services, and cloud computing and big data outperformed in Mar, with IT services contributing the major revenues in the China software industry. The SMB PMI saw recovery in Mar/ Apr, which suggests growing IT spending ahead. On new products, we see iFlytek plans to release the new generation of AI model based on the latest computing platform in Oct, and Meitu targets to release a suite of new AI products during its annual event.

Buy: AI: Sensetime, Meitu; Finance: Hundsun; IoT software: TUYA. Read more: China Software product tracker; Sensetime UG to Buy; Meitu initiation.

Mar software industry growth slowed; Apr SMB PMI MoM improve

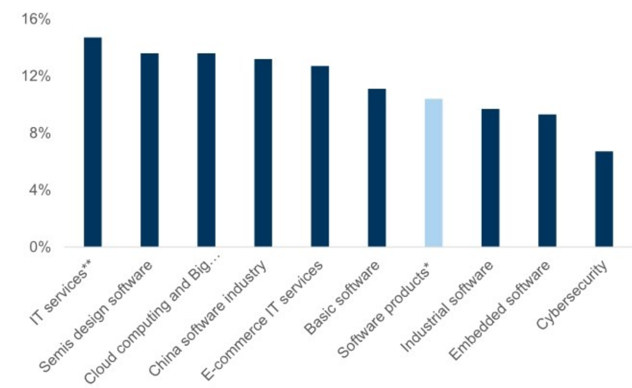
China software industry growth slowed at 11.6% YoY in Mar 2026 (vs. 11.7% in Feb 2026), and the SMB PMI recovered to 50.1 in Apr (vs. 44.8/ 49.3 in Feb/ Mar). We expect to see improving QoQ in 2Q26E on better seasonality, and rising adoption of AI features, and continue to see new progress in foundational AI models for text/ image/ video content generation to drive the application ecosystem.

China software sector key indicators:

- **China SMB PMI:** The PMI data reflects economic momentum and is correlated with the software market and customer budgets. In Apr 2026, we see SMB PMI increase to 50.1 from 48.6 in December (Exhibit 3).
- **Margin facing pressures in Mar 2026:** We saw China software industry net margin at 9% in Mar vs. net margin at 12.5% in Jan to Feb, per MIIT, showing higher margin pressures in 1Q weak season on fixed employee cost.

Exhibit 1: China software industry growth was at 12% YoY in 1Q26

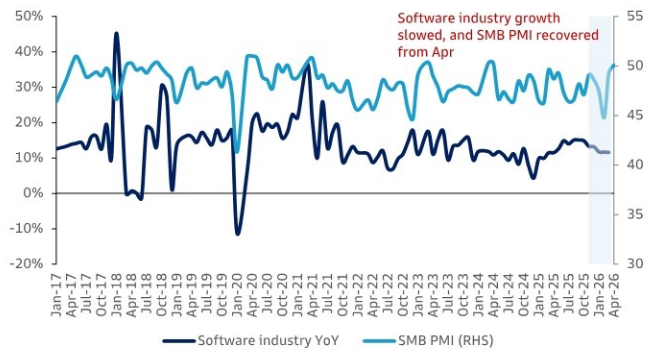
2025 China Software industry revenue growth by segment



*software products include industrial software; **IT services include E-commerce IT services, semis design software, cloud computing and big data.

Source: MIIT

Exhibit 2: Software industry growth slowed in Mar 2026; SMB PMI recovery since Apr 2026



Source: MIIT, NBS

Software Monthly: Mar rev growth at 11.6% YoY, similar to Jan-Feb growth at 11.7% YoY

Mar 2026 China software quick read:

1. **Revenue +11.6% YoY, leading to 1Q26 at 11.6% YoY, slower than 2M26 growth of 11.7% YoY:** In March, the aggregate revenue of software companies registered in China was up +11.7% YoY to Rmb1.3trn (US$186bn), resulting in 1Q26 revenue growth of +11.6% YoY, while going down from 2M26 of 11.7% YoY, per MIIT.
2. **Net margin was 9.0%, leading to 1Q26 at 11.2%, lower vs. 2M26 of 12.5%:** In March, the aggregate net income of software companies registered in China was Rmb120bn (US$17bn), or net margin of 9.0% (vs. 12.5% in Jan-Feb 2026), resulting in 1Q26 net margin of 11.2%, lower than 2M26 net margin of 12.5%, per MIIT.
3. **Overseas exposure down to 2.8%:** In March, the aggregate revenue for non-China markets from software companies registered in China was US$5.2bn, and overseas exposure was down to 2.8% (vs. 3.5% in Jan - Feb 2026).
4. **IT services remain a key contributor:** In 1Q26, the aggregate revenue of software companies registered in China (Rmb3.5trn) was mainly generated from IT services (67% of the total), followed by software products at 23%, embedded system software at 8%, and security software and services at 1%, per MIIT.

Exhibit 3: China software market snapshot

	Jan-Feb 25	Mar-25	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-Feb 26	Mar-26
China software market													
Total revenues (Rmb m)*	**1,928,193**	**1,199,469**	**1,130,638**	**1,320,600**	**1,479,600**	**1,266,200**	**1,316,100**	**1,471,800**	**1,397,700**	**1,467,300**	**1,505,500**	**2,153,500**	**1,338,500**
Software products	438,497	290,996	263,807	254,500	296,300	257,000	310,200	274,100	265,000	300,500	285,200	472,700	318,800
IT services	1,279,752	793,787	767,960	968,100	1,026,600	888,400	867,000	1,051,700	962,000	1,005,100	1,026,200	1,447,400	895,700
Security software	38,795	22,601	-1,295	18,600	26,500	12,900	20,000	24,600	18,300	19,100	23,400	41,200	24,800
Embedded system software	171,149	92,085	100,166	79,400	130,200	107,900	118,900	121,400	152,400	142,600	170,700	192,200	99,200
MoM			**-6%**	**17%**	**12%**	**-14%**	**4%**	**12%**	**-5%**	**5%**	**3%**		
Software products			-9%	-4%	16%	-13%	21%	-12%	-3%	13%	-5%		
IT services			-3%	26%	6%	-13%	-2%	21%	-9%	4%	2%		
Security software			-106%	-1536%	42%	-51%	55%	23%	-26%	4%	23%		
Embedded system software			9%	-21%	64%	-17%	10%	2%	26%	-6%	20%		
YoY	**10%**	**12%**	**11%**	**13%**	**15%**	**14%**	**15%**	**15%**	**15%**	**15%**	**12%**	**12%**	**12%**
Software products	8%	11%	10%	11%	14%	11%	16%	8%	14%	13%	1%	8%	10%
IT services	*10%*	*12%*	*13%*	*13%*	*16%*	*16%*	*16%*	*18%*	*15%*	*16%*	*16%*	*13%*	*13%*
Security software	*7%*	*12%*	*19%*	*8%*	*8%*	*-8%*	*11%*	*7%*	*3%*	*11%*	*5%*	*6%*	*10%*
Embedded system software	12%	8%	5%	9%	7%	9%	10%	9%	16%	6%	9%	12%	8%
Mix	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Software products	23%	24%	23%	19%	20%	20%	24%	19%	19%	20%	19%	22%	24%
IT services	66%	66%	68%	73%	69%	70%	66%	71%	69%	68%	68%	67%	67%
Security software	2%	2%	0%	1%	2%	1%	2%	2%	1%	1%	2%	2%	2%
Embedded system software	9%	8%	9%	6%	9%	9%	9%	8%	11%	10%	11%	9%	7%
Total net income (Rmb m)*	**250,979**	**134,566**	**121,955**	**164,600**	**186,000**	**230,900**	**229,600**	**116,600**	**136,900**	**123,300**	**189,400**	**269,300**	**120,100**
MoM			-9%	35%	13%	24%	-1%	-49%	17%	-10%	54%		
YoY	11%	13%	23%	9%	9%	14%	16%	-24%	-2%	-6%	14%	7%	-11%
Net margin	*13.0%*	*11.2%*	*10.8%*	*12.5%*	*12.6%*	*18.2%*	*17.4%*	*7.9%*	*9.8%*	*8.4%*	*12.6%*	*12.5%*	*9.0%*
Total revenues (Rmb m)	1,928,193	1,199,469	1,130,638	1,320,600	1,479,600	1,266,200	1,316,100	1,471,800	1,397,700	1,467,300	1,505,500	2,153,500	1,338,500
From China market	1,861,879	1,171,463	1,100,686	1,281,360	1,439,352	1,225,304	1,269,588	1,432,200	1,360,620	1,425,540	1,463,452	2,078,764	1,300,916
From non-China markets	66,314	28,006	29,952	39,240	40,248	40,896	46,512	39,600	37,080	41,760	42,048	74,736	37,584
Export ratio	**3%**	**2%**	**3%**	**3%**	**3%**	**3%**	**4%**	**3%**	**3%**	**3%**	**3%**	**3%**	**3%**

*Aggregate revenue/net income for software companies registered in China. IT services growth was mainly driven by cloud computing and big data segment.

Source: MIIT

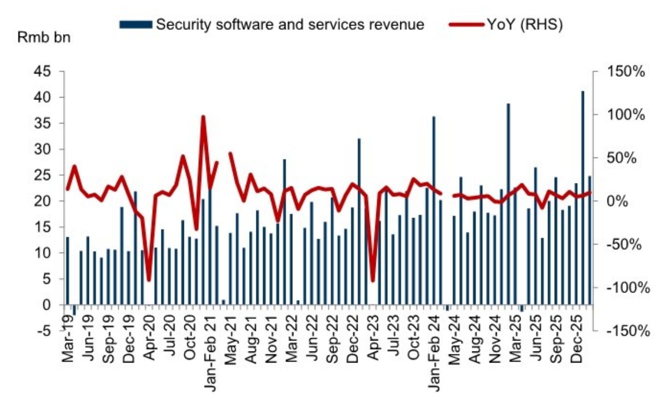
Exhibit 4: China software market continued to grow in December

Software companies registered in China: aggregate revenues and YoY

Source: MIIT

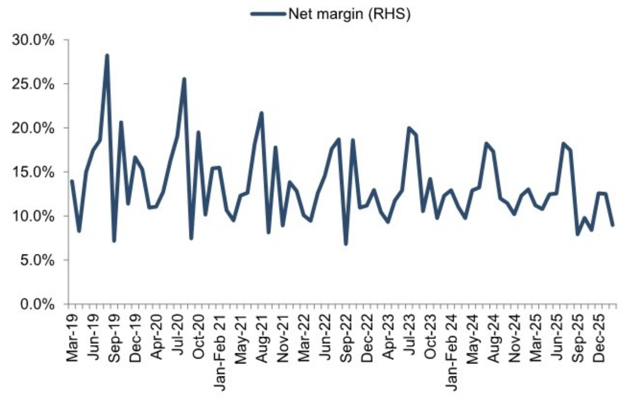
Exhibit 5: China security software revenues growth was at 10% YoY in Mar (vs. 6% YoY in Jan-Feb 2026)

Security software companies registered in China: aggregate revenues and YoY growth



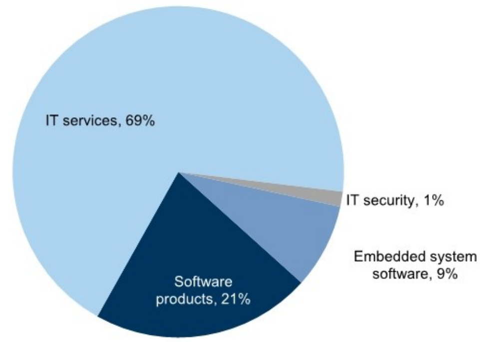
Source: MIIT

Exhibit 6: Net margin at 9.0% in Mar (vs. 12.5% in Jan - Feb 2026), leading to 1Q26 NM at 11.2%
Software companies registered in China: aggregate NI YoY growth and net margin



Source: MIIT

Exhibit 7: IT services remain the key contributor
Software companies registered in China: aggregate revenues by subsector in 1Q26

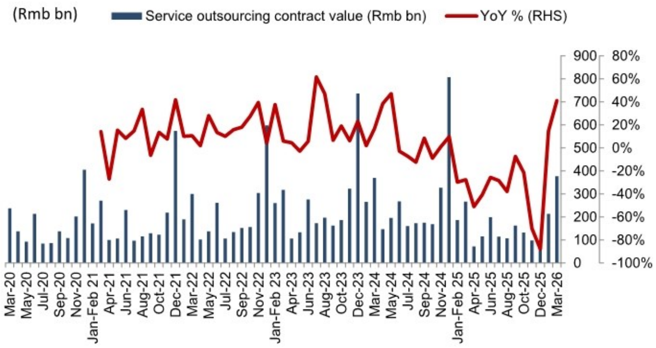


Source: MIIT

China security software / IT services market +10%/ +13% YoY in March 2026

- **China security software market revenue growth continued in March:** In Mar, the aggregate revenue of security software companies registered in China was up 10% YoY Rmb24.8bn (US$3.4bn), and 1Q26 revenue to Rmb66bn (US$9.2bn).
- **China IT services market revenue +13% YoY in March:** In March, the aggregate revenue of IT services companies registered in China was up 13% YoY to Rmb896bn (US$124bn), and 1Q26 revenue to Rmb2.3tn (US$328bn), per MIIT.
- **Service outsourcing contract value increased in Mar 2026:** In March, the aggregate contract value of service outsourcing was up to Rmb377bn, and 1Q26 contract value to Rmb590bn, per Ministry of Commerce. The aggregate value of service outsourcing (execution) was up 91% YoY to Rmb284bn in Mar 2026, driven by rising AI-related projects.

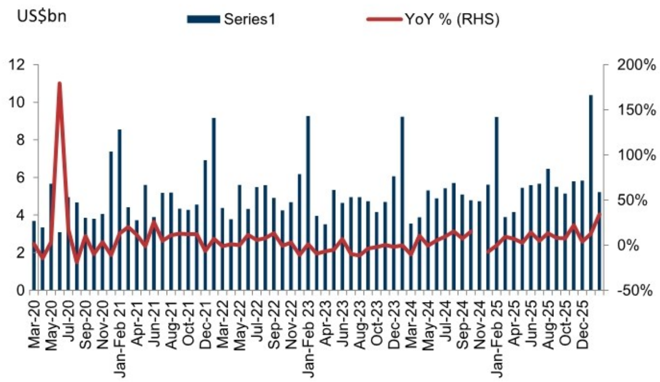
Exhibit 8: China service outsourcing contract value was up in Mar 2026



Source: Ministry of Commerce

Exhibit 9: Revenue from non-China markets went up in Mar (YoY)

Software companies registered in China: aggregate revenues from non-China markets



Source: MIIT

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