China Software: May revenue growth slowed to 8.5% YoY; Agentic AI and customized industry AI to drive client spending



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China software industry growth in May was +8.5% YoY (vs. Apr 2026/ May 2025 at +8.9%/ 12.4% YoY), slower than previous months, leading to aggregate **5M26 revenue growth of +10.5% YoY** (vs. 5M25 at 11.2% YoY). Looking into 3Q ahead, we expect to see sequential QoQ growth with better seasonality, while we see software spending remaining under pressure with allocation to AI foundational model and customized AI model projects. 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 production sites with higher efficiency. For ToC, we see users leveraging 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 May, with IT services contributing the major revenues in the China software industry. The SMB PMI was down in Jun and has shown volatility recently.

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

May software industry growth slowed; Jun SMB PMI MoM declined

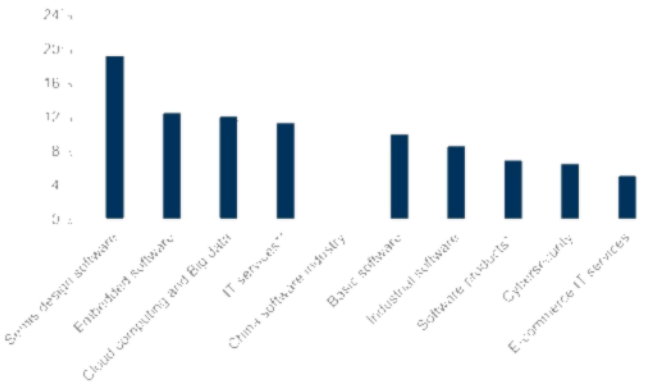
China software industry growth slowed to 8.5% YoY in May 2026 (vs. 8.9% in Apr 2026), and the SMB PMI was down to 48.2 in Jun (vs. 50.1/ 48.5 in Apr/ May). We expect to see improving QoQ in 2Q26E on better seasonality, while overall the clients' software spending remained weak, and some projects were on AI foundational models and customized AI models. We see rising adoption of AI features, and expect to see new progress in foundational AI models for text/ image/ video content generation to drive the application ecosystem and drive clients' IT spending.

China software sector key indicators:

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- **China SMB PMI:** The PMI data reflects economic momentum and is correlated with the software market and customer budgets. In Jun 2026, SMB PMI decreased to 48.2 from 48.5 in May (Exhibit 3).
- **Margin stable in May 2026:** We saw China software industry net margin at 11.9% in May vs. net margin at 12.0% in Apr, per MIIT, showing improving operational efficiency.

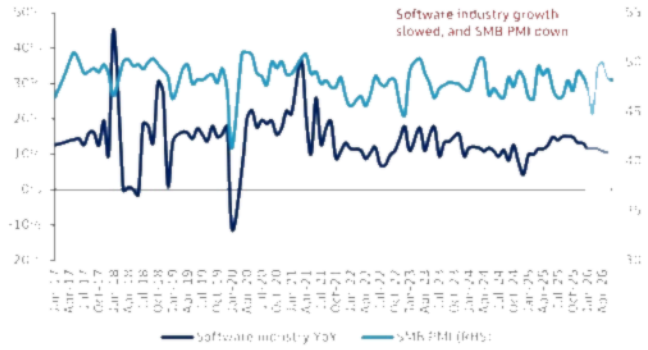
Exhibit 1: China software industry growth was at 10% YoY in 5M26
5M26 China Software industry revenue growth by segment



*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 May 2026; SMB PMI was weak in Jun 2026



Source: MIIT, NBS

Software Monthly: May revenues down to +8.5% YoY with MoM increase

May 2026 China software quick read:

1. **Revenue +8.5% YoY, leading to 5M26 at 10.3% YoY, slower than 4M26 growth of 10.9% YoY:** In May, the aggregate revenue of software companies registered in China was up +8.5% YoY to Rmb1.6trn (US$219bn), resulting in 5M26 revenue growth of +10.3% YoY, while going down from 4M26 of 11.3% YoY, per MIIT.
2. **Net margin was 11.9%, leading to 5M26 at 11.5%, higher vs. 4M26 of 11.4%:** In May, the aggregate net income of software companies registered in China was Rmb186.9bn (US$26.0bn), or net margin of 11.9% (vs. 12.0% in Apr 2026), resulting in 5M26 net margin of 11.5%, higher than 4M26 net margin of 11.4%, per MIIT.
3. **Overseas exposure up to 3.2%:** In May, the aggregate revenue for non-China markets from software companies registered in China was US$7.0bn, and overseas exposure rose to 3.2% (vs. 3.1% in Apr 2026).
4. **IT services remain a key contributor:** In 5M26, the aggregate revenue of software companies registered in China (Rmb6.2trn) was mainly generated from IT services (68% of the total), followed by software products at 22%, embedded system software at 8%, and security software and services at 2%, per MIIT.

Exhibit 3: China software market snapshot

China software market	Apr-25	May-25	Jun-25	Jul-25	Aug-25	Sep-25	Oct-25	Nov-25	Dec-25	Jan-Feb 26	Mar-26	Apr-26	May-26
Total revenues (Rmb m)*	**1,080,566**	**1,452,355**	**1,397,917**	**1,266,200**	**1,316,100**	**1,471,800**	**1,397,700**	**1,467,300**	**1,505,500**	**2,153,500**	**1,338,500**	**1,176,600**	**1,576,400**
Software products	239,396	304,076	271,135	257,000	310,200	274,100	265,000	300,500	285,200	472,700	318,800	254,900	314,400
IT services	723,960	1,044,459	994,241	888,400	867,000	1,051,700	962,000	1,005,100	1,026,200	1,447,400	895,700	790,100	1,142,900
Security software	19,726	22,353	1,726	12,900	20,000	24,600	18,300	19,100	23,400	41,200	24,800	20,800	23,400
Embedded system software	97,484	81,467	130,815	107,900	118,900	121,400	152,400	142,600	170,700	192,200	99,200	110,800	95,700
MoM	**-10%**	**34%**	**-4%**	**-9%**	**4%**	**12%**	**-5%**	**5%**	**3%**			**-12%**	**34%**
Software products	-18%	27%	-11%	-5%	21%	-12%	-3%	13%	-5%			-20%	23%
IT services	-9%	44%	-5%	-11%	-2%	21%	-9%	4%	2%			-12%	45%
Security software	-13%	13%	-92%	647%	55%	23%	-26%	4%	23%			-16%	13%
Embedded system software	6%	-16%	61%	-18%	10%	2%	26%	-6%	20%			12%	-14%
YoY	**11%**	**12%**	**15%**	**14%**	**15%**	**15%**	**15%**	**15%**	**12%**	**12%**	**12%**	**9%**	**9%**
Software products	10%	10%	15%	11%	16%	8%	14%	13%	1%	8%	10%	6%	3%
IT services	***13%***	***13%***	***17%***	***16%***	***16%***	***18%***	***15%***	***16%***	***16%***	***13%***	***13%***	***9%***	***9%***
Security software	***8%***	***8%***	***-3%***	***-8%***	***11%***	***7%***	***3%***	***11%***	***5%***	***6%***	***10%***	***5%***	***5%***
Embedded system software	5%	9%	7%	9%	10%	9%	16%	6%	9%	12%	8%	14%	17%
Mix	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Software products	22%	21%	19%	20%	24%	19%	19%	20%	19%	22%	24%	22%	20%
IT services	67%	72%	71%	70%	66%	71%	69%	68%	68%	67%	67%	67%	73%
Security software	2%	2%	0%	1%	2%	2%	1%	1%	2%	2%	2%	2%	1%
Embedded system software	9%	6%	9%	9%	9%	8%	11%	10%	11%	9%	7%	9%	6%
Total net income (Rmb m)*	**133,438**	**182,877**	**156,241**	**230,900**	**229,600**	**116,600**	**136,900**	**123,300**	**189,400**	**269,300**	**120,100**	**141,000**	**186,900**
MoM	-1%	37%	-15%	48%	-1%	-49%	17%	-10%	54%			6%	2%
YoY	22%	9%	9%	14%	16%	-24%	-2%	-6%	14%	7%	-11%	6%	2%
Net margin	*12.3%*	*12.6%*	*11.2%*	*18.2%*	*17.4%*	*7.9%*	*9.8%*	*8.4%*	*12.6%*	*12.5%*	*9.0%*	*12.0%*	*11.9%*
Total revenues (Rmb m)	1,080,566	1,452,355	1,397,917	1,266,200	1,316,100	1,471,800	1,397,700	1,467,300	1,505,500	2,153,500	1,338,500	1,176,600	1,576,400
From China market	1,048,653	1,407,441	1,370,646	1,225,304	1,269,588	1,432,200	1,360,620	1,425,540	1,463,452	2,078,764	1,300,916	1,140,240	1,526,000
From non-China markets	31,912	44,914	27,271	40,896	46,512	39,600	37,080	41,760	42,048	74,736	37,584	36,360	50,400
Export ratio	**3%**	**3%**	**2%**	**3%**	**4%**	**3%**	**3%**	**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 May 2026

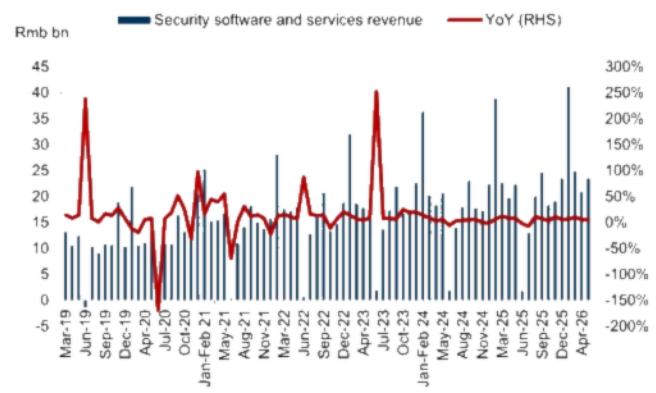
Software companies registered in China: aggregate revenues and YoY



Source: MIIT

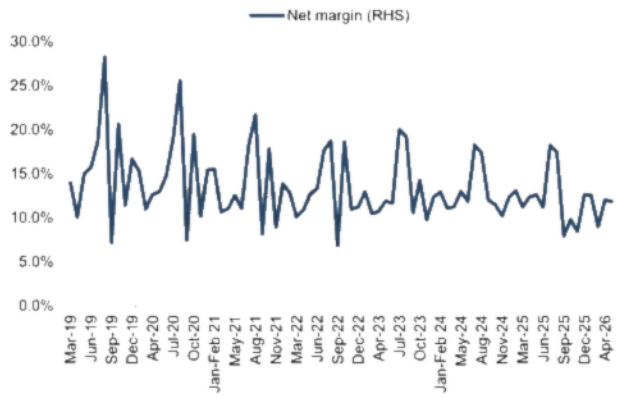
Exhibit 5: China security software revenues growth was at 5% YoY in May (vs. 5% YoY in Apr 2026)

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



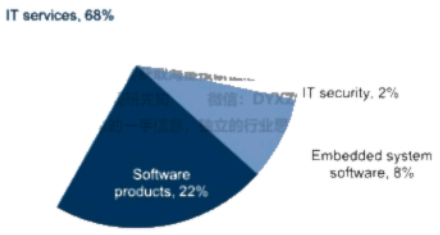
Source: MIIT

Exhibit 6: Net margin at 11.9% in May (vs. 12.0% in Apr 2026), leading to 5M26 NM at 11.5%
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 5M26



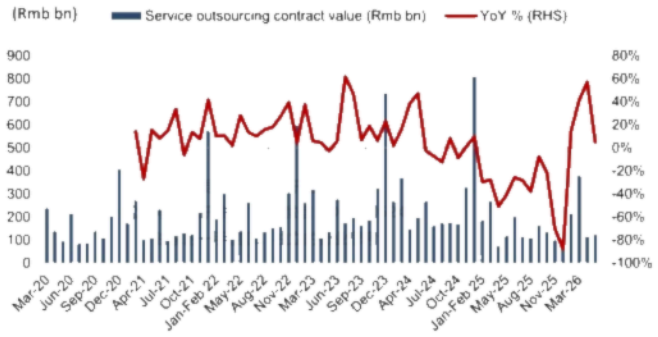
Source: MIIT

China security software / IT services market +5%/ +9% YoY in May 2026

- **China security software market revenue growth slowed in May:** In May, the aggregate revenue of security software companies registered in China was up 5% YoY to Rmb23.4bn (US$3.3bn), and 5M26 revenue came to Rmb110bn (US$15.3bn).
- **China IT services market revenue +9% YoY in May:** In May, the aggregate revenue of IT services companies registered in China was up 9% YoY to Rmb1.1trn (US$159bn), and 5M26 revenue came to Rmb4.3tn (US$594bn), per MIIT.
- **Service outsourcing contract value increased in May 2026:** In May, the aggregate contract value of service outsourcing was up (YoY) to Rmb121bn, and 5M26 contract value came to Rmb824bn, per Ministry of Commerce. The aggregate value of service outsourcing (execution) was up 14% YoY to Rmb74bn in May 2026, driven by rising AI-related projects.

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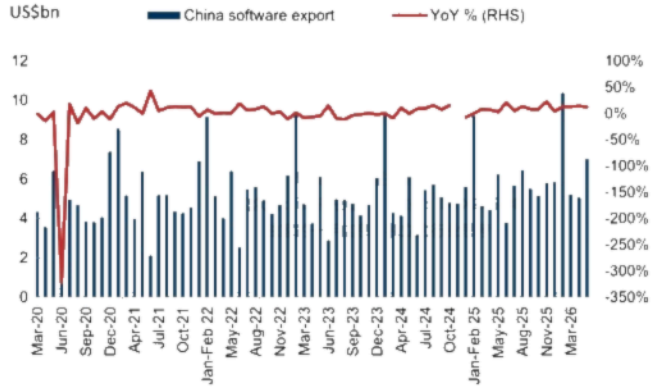
Exhibit 8: China service outsourcing contract value was up in May 2026



Source: Ministry of Commerce

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

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



Source: MIIT