

Software & IT Services

Broad recovery, a selective opportunity

We analysed a sample of 83 Hong Kong- and US-listed software and related technology companies (49 software and 34 related technology companies) to identify the drivers of their recent share price recovery. By comparing revenue growth, margin changes and AI commercialisation progress, we seek to quantify AI's tangible contribution to fundamentals and assess whether software has the potential to become a new major trading theme. Our key findings are: 1) supported by continued economic resilience, revenue growth of software companies accelerated at a broader range in 2Q26 than a year earlier, although AI's tangible contribution to fundamentals still varies across subsectors; 2) the current US software share price rebound (25 Jun to 8 Oct, same below) has been driven mainly by valuation recovery, with stronger recoveries among stocks whose fundamentals benefit from AI; and 3) among all software subsectors, infrastructure software delivered the largest revenue growth acceleration and margin improvement in 2Q26, followed by cybersecurity. Looking ahead, we believe high-value use cases with attractive ROI, verifiable outputs, sufficient data, programmable environments and manageable costs of errors are key to further AI penetration across vertical use cases. Continued advances in recursive self-improvement (RSI) could help demonstrate the benefits of AI and drive further adoption, while valuation divergence across software subsectors may persist. With overall sector valuations having recovered to near their ten-year average, we recommend: 1) continuing to prioritise infrastructure and cybersecurity, where market narratives remain positive and AI is making a tangible contribution to earnings. We recommend Palo Alto Networks (PANW US) and Datadog (DDOG US), with pullbacks potentially offering buying opportunities; and 2) focusing on enterprise application and vertical software companies where growing AI penetration could drive results ahead of market expectations.

- **Valuation recovery has been the main driver of the share price rebound.** As of 8 Oct, the S&P 500 Software & Services Index traded at 25.4x NTM PE, having recovered to near its 10-year average of 26.3x and the 26.7x level in Jan 2026 before market concerns about the narrative that "AI is eating software" intensified. From 25 Jun to 8 Oct, among the 49 software companies in our sample, the 44 with available and positive consensus EPS posted median changes of +45%/+8%/+32% in share price/rolling NTM EPS/NTM PE, respectively. Valuation recovery was a more significant driver of the share price rebound than EPS growth.
- **The recovery has diverged across subsectors, with stronger fundamental beneficiaries leading share price gains.** Software fundamentals have improved overall. Of the 49 software companies in our sample, 31 (63% of the total; the same denominator applies below) saw accelerated revenue growth in 2Q26, including 25 (51%) that delivered both revenue growth acceleration and OPM expansion. Infrastructure/cybersecurity led on fundamentals, with median YoY changes in revenue growth of +4.3ppts/+2.1ppts and median YoY OPM changes of +7.2ppts/+6.0ppts in 2Q26, respectively, all above the medians for enterprise applications and vertical software. During the current rebound, median share price gains in infrastructure/cybersecurity were 51%/58%, respectively, above the 40%/36% for enterprise applications/vertical software.
- **Investment recommendations: valuation divergence across subsectors may persist; remain selective.** Of the 49 software companies in our sample, 8 delivered YoY increases in revenue growth and OPM in 2Q26/1H26 above their respective subsector medians: MongoDB, Fastly and JFrog in infrastructure; Fortinet in cybersecurity; Palantir, Atlassian and Kingdee in enterprise applications; and Procore in

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vertical software. Among these, MongoDB, Fortinet, Atlassian and Palantir exceeded their respective subsector medians in both the YoY improvement and absolute levels of revenue growth and OPM. Looking ahead, we recommend a selective approach to software, prioritising quality names in infrastructure and cybersecurity, where market narratives remain positive and AI is making a tangible contribution to earnings. We also recommend selective accumulation of enterprise application and vertical software names, where rising AI penetration may drive earnings ahead of market expectations. Meanwhile, we would avoid companies facing structural disruption, where AI revenue is difficult to quantify and the higher costs of adopting AI features cause a structural margin decline.

Contents

Investment strategy: improving sector fundamentals, but valuation divergence may persist; remain selective on investment opportunities

opportunities	4
Sample coverage: 83 companies overall, including 49 core software companies	5
Operating performance: revenue acceleration broadens; operating leverage drives margin expansion.....	6
Share-price performance: cybersecurity and infrastructure lead gains; valuation recovery drives the rebound	10
AI monetisation: paid adoption expands, but the tangible contribution to fundamentals still varies by subsegment	12
Focus on companies with above-peer improvements in revenue growth and OPM	14
Other sectors: AI monetisation continues to deepen in advertising and creative use cases.....	17

Stock recommendations 19

Investment strategy: improving sector fundamentals, but valuation divergence may persist; remain selective on investment opportunities

We analysed a sample of 83 Hong Kong- and US-listed software and related technology companies (49 software and 34 related technology companies) to identify the drivers of their recent share price recovery. By comparing revenue growth, margin changes and AI commercialisation progress, we seek to quantify AI's tangible contribution to fundamentals and assess whether software has the potential to become a new major trading theme. Our key findings are: 1) supported by continued economic resilience, revenue growth of software companies accelerated at a broader range in 2Q26 than a year earlier, although AI's tangible contribution to fundamentals still varies across subsectors; 2) the current US software share price rebound has been driven mainly by valuation recovery, with stronger recoveries among stocks whose fundamentals benefit from AI; and 3) among all software subsectors, infrastructure software delivered the largest revenue growth acceleration and margin improvement in 2Q26, followed by cybersecurity.

Looking ahead, we believe high-value use cases with attractive ROI, verifiable outputs, sufficient data, programmable environments and manageable costs of errors are key to further AI penetration across vertical use cases. Continued advances in recursive self-improvement (RSI) could help demonstrate the benefits of AI and drive further adoption, while valuation divergence across software subsectors may persist. With overall sector valuations having recovered to near their ten-year average, we recommend: 1) continuing to prioritise infrastructure and cybersecurity, where market narratives remain positive and AI is making a tangible contribution to earnings. We recommend Palo Alto Networks (PANW US) and Datadog (DDOG US), with pullbacks potentially offering buying opportunities; and 2) focusing on enterprise application and vertical software companies where growing AI penetration could drive results ahead of market expectations.

1) Valuation recovery has driven the current software rebound, with infrastructure and cybersecurity posting larger gains. On 8 Oct, the S&P 500 Software & Services Index traded at 25.4x NTM PE, having recovered from its recent trough to near its ten-year average of 26.3x and the 26.7x level in Jan 2026 before market concerns about the narrative that "AI is eating software" intensified. During the current share price recovery (from 25 Jun to 8 Oct, when the S&P 500 Software & Services Index's NTM PE troughed, same below), among the 49 software companies in our sample, 44 companies with available and positive consensus EPS posted median changes of +45%, +8% and +32% in share price, rolling NTM EPS and NTM PE, respectively. Valuation recovery outpaced NTM EPS growth. The share price recovery has also diverged across subsectors, with infrastructure and cybersecurity leading. During the current rebound, median share price gains in infrastructure/cybersecurity were 51%/58%, respectively, above the 40%/36% for enterprise applications/vertical software.

2) Revenue growth and cost control jointly support margin expansion. Economic resilience and improving operating efficiency have supported broad-based revenue growth acceleration and margin improvement. Among the 83 companies in our sample, 42 delivered both revenue growth acceleration and OPM expansion; among the 49 software companies, 25 achieved both. Based on the median changes, revenue growth and OPM among the 49 software companies increased by 0.9ppts and 4.9ppts YoY, respectively, in 2Q26. A breakdown of the drivers shows that revenue growth, personnel cost control and a lower share-based compensation expense ratio jointly drove operating leverage and margin expansion, partly offset by AI investment.

3) AI commercialisation continues to progress, but benefits to earnings remain uneven. Across software subsectors, infrastructure benefits as AI workloads increase platform consumption and enterprise demand for digitalisation rises. Cybersecurity generates orders through AI protection and identity management. Horizontal applications monetise AI through standalone paid offerings, package upgrades and usage-based pricing, while vertical software captures related revenue from AI-driven industry investment.

We believe high-value use cases with attractive ROI, verifiable outputs, sufficient data, programmable environments and manageable costs of errors are key to further AI penetration across use cases. Continued advances and optimisation in recursive self-improvement (RSI) could help demonstrate the benefits of AI and drive further adoption across use cases, while valuation divergence across software subsectors may persist. In the near term, judging by tangible AI commercialisation progress, infrastructure software is seeing more evident fundamental benefits than other subsectors, while the market narrative for cybersecurity remains positive. Enterprise applications and vertical software also benefit from the commercialisation of AI features, but the associated revenue ramp-up has been more moderate.

4) Advertising and creative tools are already delivering AI-driven results, with established monetisation channels shortening the path to commercialisation. Among the 34 related technology companies, we observe advertising platforms using AI to improve campaign performance and capture more customer budgets, while creative tools integrate AI features into subscription products to expand their paid user base.

Sample coverage: 83 companies overall, including 49 core software companies

We selected 83 Hong Kong- and US-listed software and related technology companies with complete data on revenue growth, gross margin, OPM and their YoY changes. Using their latest financial results in 2Q26, we compared changes in revenue growth and profitability and assess AI commercialisation progress. The sample comprises 63 US-listed and 20 Hong Kong-listed companies, classified into nine categories by principal business, including 49 software and 34 related technology companies. The sample is set out below.

Figure 1: Industry classification of 83 sample companies

Sample coverage	Subsector	Count
Core software		49
	Data and developer infrastructure	8
	Cybersecurity	10
	Enterprise applications	19
	Vertical software	12
Related technology		34
	Cloud and computing services	11
	AI models and enterprise AI platforms	6
	AI4Science and healthcare AI	4
	Internet/content/gaming and adtech	10
	IT services and merchant technology	3
Full comparable sample		83

Source: CMBIGM

The 49 core software companies fall into four categories: 1) 8 data and developer infrastructure companies, covering data management, observability and software development tools; 2) 10 cybersecurity companies, covering network, cloud, endpoint and identity security; 3) 19 enterprise application companies, primarily providing cross-industry applications such as customer relationship management, workplace collaboration, human resources and business process management; and 4) 12 vertical software companies serving specific industries such as construction, healthcare, restaurants, retail and finance. Our subsequent analysis of subsector operating trends, valuation comparisons and AI monetisation focuses on these 49 core software companies, comparing revenue growth acceleration, margin changes and the conversion of AI demand across business models.

The 34 related technology companies comprise 11 in cloud and computing services, 6 in AI models and enterprise AI platforms, 4 in AI4Science and healthcare AI, 10 in internet/content/gaming and adtech, and 3 in IT services and merchant technology. We include these companies to place changes in core software operating performance within the broader technology sector, distinguishing improvements driven by software products and customer demand from growth and profitability changes shared by related technology industries amid a relatively resilient economy. The 83 companies therefore illustrate overall operating performance across software and related technology, while the 49 core software companies form the primary sample for our software sector analysis and stock selection.

Figure 2: Sample companies and industry classification

Subsector	Count	Companies and tickers
Data and developer infrastructure	8	Datadog (DDOG US), Fastly (FSLY US), MongoDB (MDB US), Dynatrace (DT US), Elastic (ESTC US), Snowflake (SNOW US), JFrog (FROG US), GitLab (GTLB US)
Cybersecurity	10	Palo Alto Networks (PANW US), Tenable (TENB US), Zscaler (ZS US), Qualys (QLYS US), Okta (OKTA US), Rubrik (RBRK US), Fortinet (FTNT US), Cloudflare (NET US), SentinelOne (S US), CrowdStrike (CRWD US)
Enterprise applications	19	Salesforce (CRM US), Adobe (ADBE US), Kingdee International (268 HK), Asana (ASAN US), monday.com (MNDY US), Atlassian (TEAM US), Dropbox (DBX US), ServiceNow (NOW US), Box (BOX US), Autodesk (ADSK US), Zoom (ZM US), HubSpot (HUBS US), UiPath (PATH US), Twilio (TWLO US), Paycom (PAYC US), Paylocity (PCTY US), Workday (WDAY US), Palantir (PLTR US), Intuit (INTU US)
Vertical software	12	Guidewire (GWRE US), Toast (TOST US), AppFolio (APPF US), Ming Yuan Cloud (909 HK), Shopify (SHOP US), China Youzan (6051 HK), Procore (PCOR US), Xunce (3317 HK), Samsara (IOT US), Veeva Systems (VEEV US), Q2 Holdings (QTWO US), Weimob (2013 HK)
Cloud and computing services	11	Alphabet (GOOG US), Amazon (AMZN US), Microsoft (MSFT US), Alibaba (BABA US), Tencent Holdings (700 HK), Kingsoft Cloud (3896 HK), DigitalOcean (DOCN US), IBM (IBM US), Oracle (ORCL US), CoreWeave (CRWV US), Nebius (NBIS US)
AI models and enterprise AI platforms	6	Knowledge Atlas (2513 HK), SenseTime-W (20 HK), BigBear.ai (BBAI US), Deepexi Technology (1384 HK), C3.ai (AI US), Mininglamp Technology-W (2718 HK)
AI4Science and healthcare AI	4	Tempus AI (TEM US), Yidu Tech (2158 HK), Xunfei Healthcare Technology (2506 HK), Insilico Medicine (3696 HK)
Internet/content/gaming and adtech	10	Kuaishou-W (1024 HK), AppLovin (APP US), Bilibili (BILI US), Duolingo (DUOL US), Meitu (1357 HK), Unity Software (U US), Take-Two Interactive (TTWO US), Roblox (RBLX US), XD (2400 HK), NetEase (NTES US)
IT services and merchant technology	3	AsiaInfo Technologies (1675 HK), Yeahka (9923 HK), Chinasoftware International (354 HK)

Source: CMBIGM

Note: We exclude certain companies with limited Bloomberg consensus data from the sample.

Operating performance: revenue acceleration broadens; operating leverage drives margin expansion

83 sample companies reported median revenue growth and OPM of 19.7% and 9.1%, respectively, in 2Q26/1H26 (note: we use 2Q26 or comparable fiscal-quarter data for companies reporting quarterly results, and 1H26 financial data for Hong Kong-listed companies reporting only half-year results). Median YoY changes in the two metrics were +2.5ppts and +2.7ppts, respectively; 42 companies achieved both faster revenue growth and higher OPM.

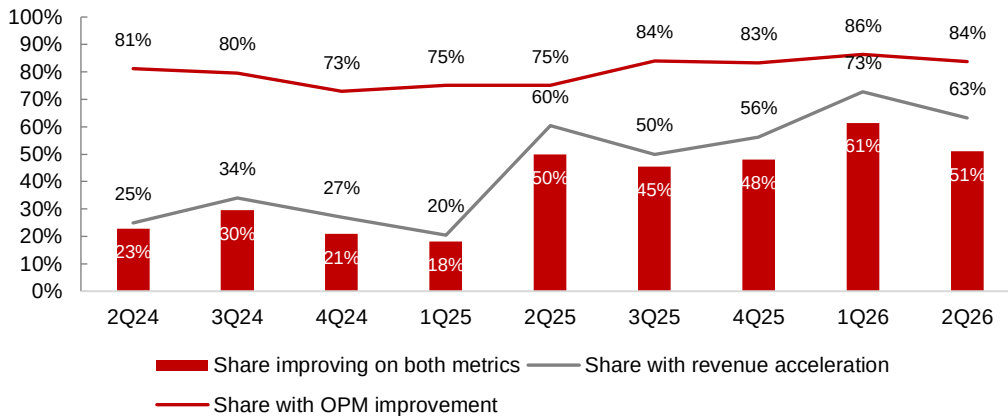
Focusing on the four core software segments of infrastructure, cybersecurity, enterprise applications and vertical software, 25 of the 49 companies, or 51%, improved on both metrics. Core software companies recorded median YoY changes of +0.9ppts in revenue growth and +4.9ppts in OPM, while the median YoY change in gross margin was -0.3ppts. The gross margin decline may partly reflect AI-related usage costs, while a lower operating expense ratio offset some of the gross margin pressure.

■ Revenue acceleration broadens, with around half of core software companies achieving both faster revenue growth and higher OPM

Revenue acceleration has broadened markedly since 2Q25, while most companies have continued to improve margins. The share of companies with a YoY increase in revenue growth rose from 20% in 1Q25 to 60% in 2Q25 and remained above half in most subsequent quarters. More than 70% of companies have delivered YoY OPM improvement in every quarter since 2Q24. In 2Q26, 31 (63%) of the 49 core software companies reported

faster revenue growth, 41 (84%) achieved higher OPM, and 25 (51%) improved on both metrics.

Figure 3: Software operating improvements broaden from margin expansion to revenue acceleration



Source: Bloomberg, CMBIGM

Note: 1) For all 49 core software companies, 2Q26 data are available on the levels of revenue growth, OPM and gross margin, as well as the YoY change in each metric. We calculate all medians using the same 49-company sample. 2) The chart tracks a fixed universe of 49 core software companies, but the number included in the calculations may vary by quarter. Each quarter's sample includes only companies with revenue growth and OPM data available for both that quarter and the same quarter a year earlier. Companies with missing data are excluded for the relevant quarter. 3) For companies reporting only half-year results, 1H is mapped to 2Q and 2H to 4Q; 1Q and 3Q are left blank. 4) "Revenue acceleration" means that the revenue growth rate is higher than in the same period a year earlier. "Margin improvement" means that OPM is higher than in the same period a year earlier.

■ Faster revenue growth and personnel cost control drive operating leverage

Faster revenue growth, personnel cost control and share-based compensation discipline have together reduced operating expense ratios. In 2Q26/1H26, the 83 companies recorded a median YoY gross margin change of -0.1ppt, versus a median YoY OPM change of +2.7ppts. Based on gross margin less OPM, the median YoY change in the operating expense ratio was -3.6ppts; 64 companies, or around 80%, reduced their operating expense ratios. Of the 83 companies, 26 improved OPM despite lower gross margins, while 36 expanded both gross margin and OPM.

49 core software companies reported median YoY revenue growth of 19.3% and median OPM of 7.1%. Based on the median changes, revenue growth increased 0.9ppts YoY and OPM expanded 4.9ppts YoY. The median YoY changes in gross margin and the operating expense ratio were -0.3ppts and -4.2ppts, respectively, indicating that profitability improvement was mainly driven by a lower operating expense ratio.

Control over headcount and expense growth supported margin improvement. For example, Atlassian attributed its margin improvement to disciplined hiring, resource reallocation and slower growth in share-based compensation expenses. HubSpot controlled personnel and other expenses while growing revenue. In 2Q26, monday.com freed up c.US\$100mn through organisational and cost adjustments.

■ Subsegments: fundamentals improve across the board; infrastructure and cybersecurity delivered larger gains in revenue growth and OPM than others

Our analysis shows that data and developer infrastructure recorded the strongest revenue acceleration and combined improvement in growth and profitability in 2Q26. Median revenue growth was 26.0% for data and developer infrastructure and 25.3% for cybersecurity, with median OPM of -3.9% and 1.9%, respectively. Enterprise applications and vertical software reported median revenue growth of 13.4% and 18.0%, and median OPM of 11.9% and 7.6%, respectively. Among the four subsegments in our analysis, data and developer infrastructure recorded the highest median YoY increase in revenue growth at 4.3ppts, which may partly reflect a more pronounced benefit to fundamentals from rising AI and digitalisation demand.

Growth within infrastructure also diverged, with five of the eight companies recording YoY improvements in revenue and gross margin in 2Q26. MongoDB delivered faster revenue growth and higher OPM, showing the strongest operating improvement in the subsegment, while GitLab saw both revenue growth and OPM decline YoY. In 2QFY27 (fiscal year ending 31 January), MongoDB's revenue rose 30.5% YoY, with growth accelerating 6.8ppts from the prior-year period. GAAP OPM improved 14.7ppts YoY to 3.7%, mainly driven by a higher EA mix, lower third-party consulting costs and c.US\$4.8mn of one-off restructuring expenses in the prior-year period (contributing c.0.8ppts to GAAP OPM improvement). GitLab's revenue grew 21.3% YoY, slowing 7.9ppts from the prior-year period, while GAAP OPM declined 12.1ppts YoY to -19.9%.

MongoDB's revenue acceleration this quarter was mainly driven by Enterprise Advanced (EA), with management indicating that AI's contribution to the current business remained relatively limited. In 2QFY27, Atlas revenue grew c.29% YoY, maintaining this growth rate for the fifth consecutive quarter. EA and other revenue increased 36% YoY, while EA and other ARR, which annualises contract value to remove the impact of contract duration, grew c.11%.

According to its earnings call, GitLab has seen a recovery in bookings and customer expansion, although revenue growth continues to slow. In 2QFY27 (fiscal year ending 31 January), bookings reached a record high and net revenue retention recovered to 117%, marking its first sequential increase since 2024. Calculated billings growth accelerated to 24% YoY from 12% in the previous quarter. Non-GAAP OPM was c.15%, ahead of guidance due to improved sales efficiency and the timing of some investment spending, but below 16.8% in the prior-year period. The company also recognised US\$23.3mn in restructuring expenses. FY27 revenue growth guidance is 18% – 19%. The company expects bookings to return to a normal cadence in the second half and to sustain 2Q's record bookings level for the full year.

Figure 4: Growth, profitability and valuation by subsegment for 49 core software companies

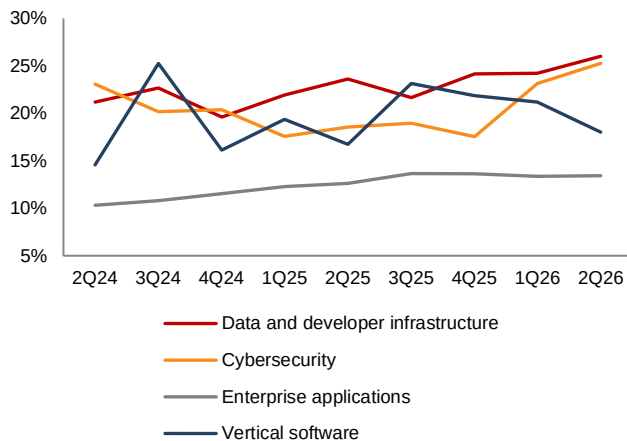
Subsegment	Count	Revenue growth / YoY change in growth	OPM / YoY change	2026E EV/Sales	Forward Rule of 40
Data and developer infrastructure	8	26.0% / +4.3ppt	-3.9% / +7.2ppt	12.0x	42.1%
Cybersecurity	10	25.3% / +2.1ppt	1.9% / +6.0ppt	15.7x	43.7%
Enterprise applications	19	13.4% / +0.4ppt	11.9% / +4.1ppt	4.7x	37.4%
Vertical software	12	18.0% / +1.4ppt	7.6% / +2.7ppt	6.7x	39.2%

Source: Bloomberg, CMBIGM

Note: 1) The sample includes 49 core software companies with complete data for the latest reporting period and the same period a year earlier. We use 2Q26 or comparable fiscal-quarter results. For companies reporting only half-year results, we use 1H26 financial data. 2) For each metric, we report the median across the sample companies. 3) We first calculate the YoY change in each metric for each company, then take the median of those changes. 4) OP uses Bloomberg-adjusted data. 5) Rule of 40 equals the 2026E FCF margin plus the 2026–28E revenue CAGR. 6) Valuations are as of 8 October 2026.

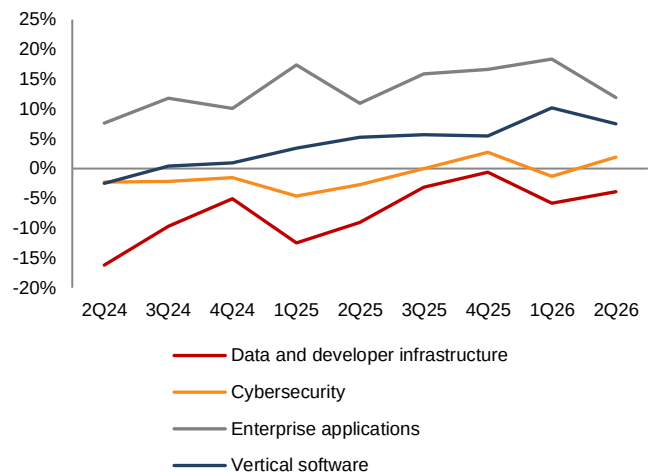
Median revenue growth and OPM improved across all four subsegments. Median revenue growth for infrastructure and cybersecurity rose from 23.6% and 18.6% in 2Q25 to 26.0% and 25.3% in 2Q26, respectively. Enterprise applications and vertical software increased from 12.6% and 16.7% to 13.4% and 18.0%, respectively. Among the four subsegments, cybersecurity recorded the largest increase in median revenue growth, while the change in enterprise applications was relatively small.

In terms of profitability, infrastructure's median OPM improved from -9.0% in 2Q25 to -3.9% in 2Q26, narrowing losses, while cybersecurity turned positive, rising from -2.7% to 1.9%. Median OPM for enterprise applications edged up from 10.9% to 11.9%, while vertical software increased from 5.2% to 7.6%. Both application software categories continued to report higher median OPM than infrastructure and cybersecurity.

Figure 5: Core software YoY revenue growth by subsegment


Source: Bloomberg, CMBIGM

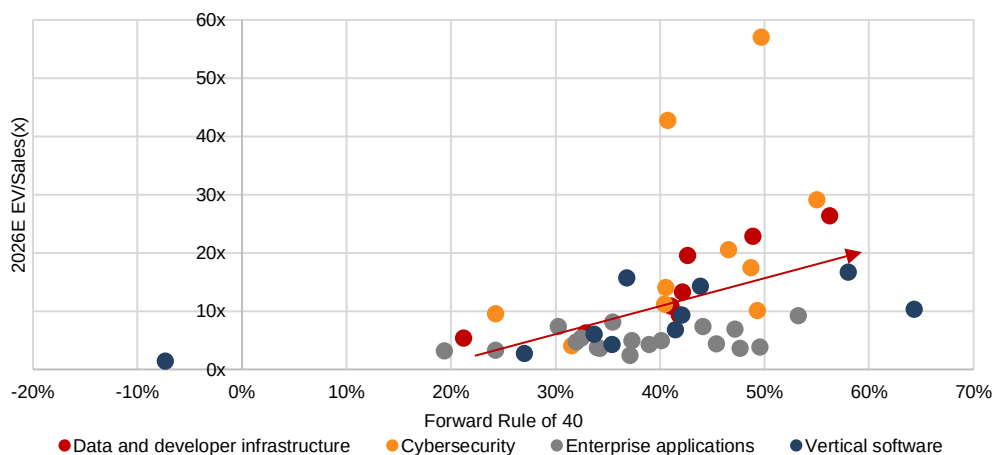
Note: The chart shows median YoY revenue growth for each quarter from 2Q24 to 2Q26. We consider the same 49 core software companies throughout, but the number included may vary by quarter. For each quarter, we only include companies with revenue growth and OPM data available for both that quarter and the same quarter a year earlier.

Figure 6: Core software OPM by subsegment


Source: Bloomberg, CMBIGM

Note: The chart shows median OPM for each quarter from 2Q24 to 2Q26. We consider the same 49 core software companies throughout, but the number included may vary by quarter. For each quarter, we only include companies with revenue growth and OPM data available for both that quarter and the same quarter a year earlier.

Our analysis suggests a broadly positive correlation between 2026E EV/Sales and the forward Rule of 40 for the software companies in our sample. The 27 companies with a Rule of 40 score of at least 40% trade at a median EV/Sales of 11.1x, versus 4.5x for the remaining 20 companies.

Figure 7: Core software EV/sales shows a broadly positive correlation with the Rule of 40


Source: Bloomberg, CMBIGM

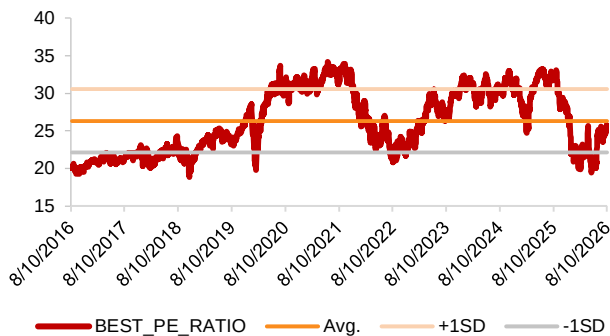
Note: 1) The sample comprises 47 of the 49 core software companies for which both 2026E EV/Sales and forward Rule of 40 data are available. 2) Rule of 40 equals the 2026E FCF margin plus the 2026 – 28E revenue CAGR. 3) Valuations are as of 8 October 2026. 4) The linear regression R^2 is 0.38, with R^2 values of 0.76/0.77/0.46/0.22 for infrastructure/ enterprise applications/ vertical software/ cybersecurity, respectively. 5) Based on data as of 12 September, the linear regression R^2 between valuation and the forward Rule of 40 for the overall sample was 0.68, with R^2 values of 0.71/ 0.83/ 0.54/ 0.44 for infrastructure/ enterprise applications/ vertical software/ cybersecurity, respectively. On 12 September, Anthropic CEO Dario Amodei highlighted cyberattack risks arising from advances in AI capabilities. The ensuing discussion increased market attention to cybersecurity spending and drove a significant rally in cybersecurity stocks, reducing the subsegment's R^2 .

Share-price performance: cybersecurity and infrastructure lead gains; valuation recovery drives the rebound

As of 8 October 2026, the S&P 500 Software & Services Index traded at 25.4x NTM PE, around the 48th percentile of its 10-year historical reference range and approaching its 10-year average of 26.3x. Breaking down the periods: 1) Valuation recovery has been the main driver of the index rebound since late June. On 8 October, the index traded at 25.4x NTM PE, up 31% from its year-to-date low of 19.5x on 25 June, while rolling NTM EPS rose 6% over the same period. 2) Over the 12 months ended 8 October, rolling NTM EPS for the index grew 23.2%, while PE fell 22.1%; EPS growth helped the sector grow into its valuation.

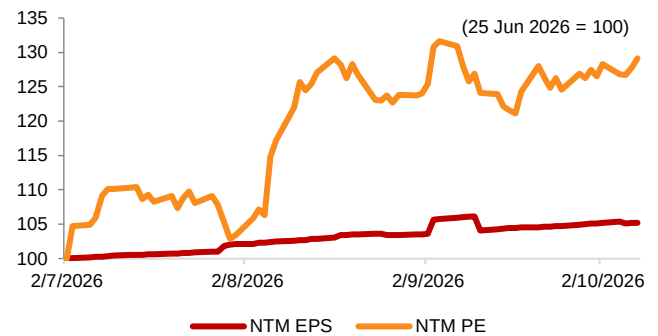
The valuation premium of the S&P 500 Software & Services Index over the S&P 500 has also narrowed. On 8 October, software traded at a 33.4% PE premium to the S&P 500, below the 10-year reference average of 36.7%. Its PE premium to the S&P 500 IT Index was 23.0%, around the 85th percentile of its 10-year historical reference range.

Figure 8: S&P 500 Software & Services Index NTM PE is below its 10-year average



Source: Bloomberg, CMBIGM
Note: Data as of 8 October 2026.

Figure 9: Software & Services Index PE expansion has outpaced EPS growth since late June



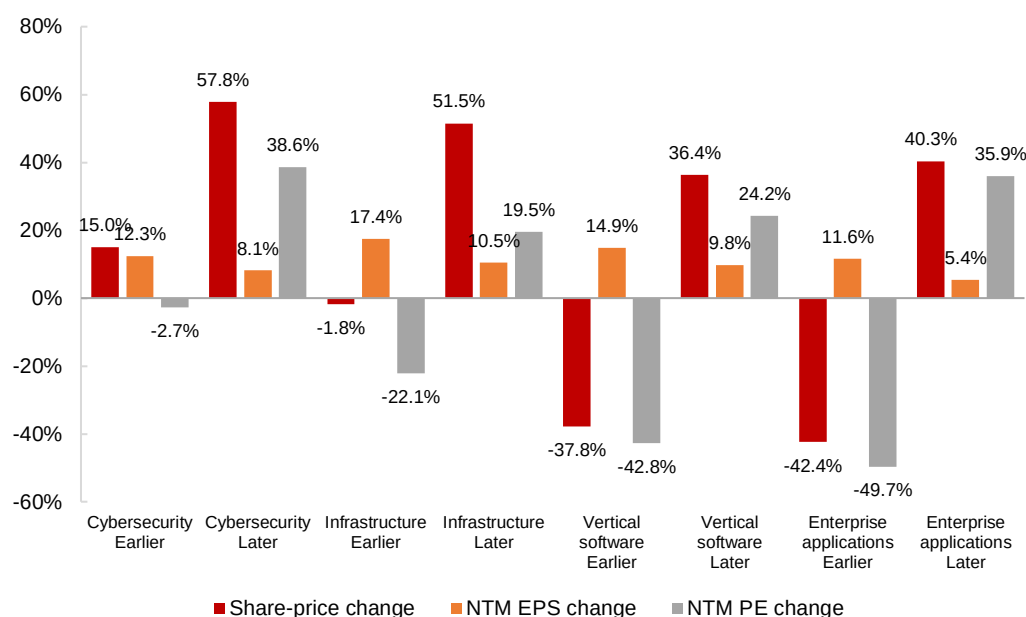
Source: Bloomberg, CMBIGM
Note: Data as of 8 October 2026.

■ Subsegment performance: application software saw sharper initial valuation compression than infrastructure and cybersecurity, followed by a weaker share-price recovery

Valuation recovery has also driven the rebound in individual stocks. Among the 44 core software companies with comparable PE and EPS data, the median share-price change during the valuation compression period (defined as 31 December 2025 to 25 June 2026, when the "AI is eating software" narrative gained traction; the same definition applies below) was -29%, while median changes in rolling NTM EPS and NTM PE were +13% and -41%, respectively. During the share-price recovery period, the three metrics were +45%, +8% and +32%, respectively. Earnings growth was unable to offset valuation compression in the earlier period, while PE recovery provided the main support for the subsequent rebound.

Application software experienced sharper initial valuation compression than infrastructure and cybersecurity, yet its share-price gains from 25 June to 8 October lagged both subsegments. During the valuation compression period, enterprise applications and vertical software recorded median share-price changes of -42% and -38%, median rolling NTM EPS changes of +12% and +15%, and median PE changes of -50% and -43%, respectively. Valuation compression was the main driver of the share-price declines. During the share-price recovery period, median share-price gains for the two groups reached 40% and 36%, with median rolling NTM EPS changes of +5% and +10% and median PE increases of 36% and 24%, respectively. Infrastructure and cybersecurity posted median share-price gains of 51% and 58% over the same period.

Figure 10: Core software stocks shifted from valuation compression to valuation recovery after late June



Source: Bloomberg, CMBIGM

Note: 1) Our comparative analysis covers 44 of the 49 companies for which share price, NTM EPS and NTM PE data are available. 2) For each metric, we first calculate each company's change over the period, then take the median across companies. The chart shows these medians. 3) We divide the historical data into two periods using 25 June, when the index reached its year-to-date PE low. The valuation compression period runs from 31 December 2025 to 25 June 2026, and the share price recovery period runs from 25 June to 8 October. 4) Changes in NTM EPS also reflect the next-12-month forecast period moving forward between the observation dates.

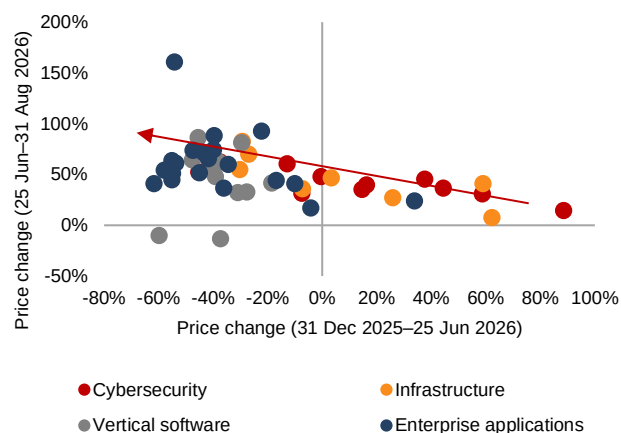
■ **Rebound patterns: the hardest-hit group saw a strong valuation recovery from late June to late August, but fundamental expectations and narratives again dominated share-price performance thereafter**

Using 31 August as an interim observation point, when the S&P Software & Services Index reached its year-to-date high, we compare cumulative recoveries from 25 June to 31 August and from 25 June to 8 October to identify the main drivers of changes in sector index performance. We rank the 44 sample companies by share-price performance during the valuation compression period, classify the 11 companies with the largest declines (the bottom quartile) as the "hardest-hit group" and the 11 companies with the largest gains (the top quartile) as the "strongest group", and compare their share prices, earnings expectations and valuations across the observation periods.

From 25 June to 31 August, the hardest-hit group posted a median share-price gain of 60.6%, substantially above 34.6% for the strongest group. Median rolling NTM EPS growth was similar, at 6.8% and 7.0%, respectively, while median NTM PE increases were 49.3% and 19.9%. The hardest-hit group therefore enjoyed a larger valuation recovery than the strongest group in the early stages of the rebound.

Extending the observation period to 8 October, however, the hardest-hit group lagged the strongest group in both cumulative share-price and PE gains. From 25 June to 8 October, the hardest-hit group's median share-price gain was 36.2%, below 44.5% for the strongest group. Median rolling NTM EPS growth remained similar, at 11.6% and 11.8%, respectively, while median NTM PE increases were 21.1% and 28.6%. The data show that the pronounced recovery advantage of the hardest-hit group through late August did not persist throughout the full share-price recovery period.

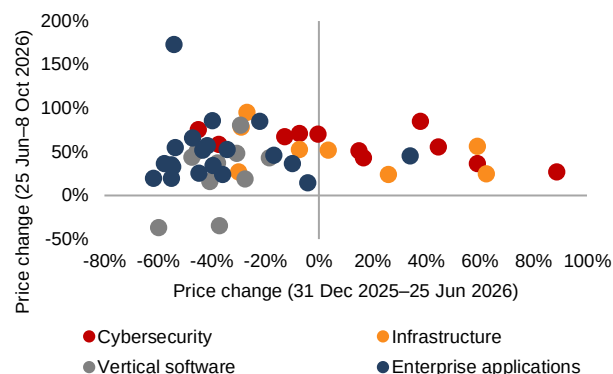
Figure 11: From 25 June to 31 August, stocks with larger declines during valuation compression saw stronger recoveries



Source: Bloomberg, CMBIGM

Note: Each point represents one of 44 core software companies, with colours denoting subsegments. The horizontal axis shows share-price performance from 31 December 2025 to 25 June 2026, and the vertical axis shows share-price performance from 25 June to 31 August 2026. The linear regression R^2 is 0.41. See Figure 2 for company classifications.

Figure 12: Extending the period to 8 October weakens the relationship between share-price recovery and performance during valuation compression, potentially indicating a return to fundamental expectations and narratives as price drivers



Source: Bloomberg, CMBIGM

Note: 1) Data as of 8 October 2026. 2) The linear regression R^2 is 0.01.

AI monetisation: paid adoption expands, but the tangible contribution to fundamentals still varies by subsegment

AI's contribution to revenue growth varies by subsegment and company. Infrastructure benefits from AI workloads driving platform consumption and rising enterprise digitalisation demand. Cybersecurity generates bookings through AI protection and identity management. Horizontal applications monetise through standalone paid offerings, package upgrades and usage-based pricing, while vertical software captures related revenue from AI-driven industry investment. Progress at some companies has already translated into faster revenue growth, while growth at others remains dependent on product scale, customer usage and the timing of revenue recognition.

Figure 13: Sources of AI demand, paid adoption and financial impact across software subsegments

Company / period	AI monetisation progress this quarter	Impact on revenue and profit
Data and developer infrastructure: AI training, inference and enterprise applications increase demand for data processing and observability, monetised through core platform consumption, seat subscriptions and usage-based charges.		
Snowflake 2QFY27	Product revenue grew 37% YoY, with growth accelerating for the third consecutive quarter. Management said AI products accounted for around half of the acceleration, while customers adopting AI also increased core platform consumption.	FY27 product revenue growth guidance is 36%, including c.1ppt from Observe. AI workloads currently carry lower contribution margins, prompting an adjustment to FY27 non-GAAP product gross margin guidance to 74%; personnel cost control supported an increase in non-GAAP OPM guidance to 14.5%.
Datadog 2Q26	Over 750 AI customers, including 31 with annualised spending above US\$1mn and eight above US\$10mn; signed a nine-figure US dollar renewal contract with an AI customer. MCP tool calls were c.4x the previous quarter and more than 22x the 4Q25 level.	Training and inference demand drove customer spending on monitoring cloud resources, application performance and reliability. Management expects its largest AI customer to reduce usage from 3Q and has incorporated this change into revenue guidance.

Company / period	AI monetisation progress this quarter	Impact on revenue and profit
MongoDB 2QFY27	Management said AI's contribution to the current business remained at an early stage. Atlas revenue grew c.29% YoY, maintaining this rate for the fifth consecutive quarter. Total revenue acceleration this quarter was mainly driven by Enterprise Advanced (EA).	EA and other revenue grew 36% YoY, while EA and other ARR, measured on an annualised contract value basis, increased 11% YoY.
GitLab 2QFY27	Through Flex, customers commit a purchase amount that they can flexibly allocate across subscription seats, usage credits and other usage-based products. At period-end, the annualised amount based on paid usage and contractual commitments (paid CRR) exceeded US\$40mn, including Flex commitments, credit commitments and paid usage.	Bookings reached a record high and NRR recovered to 117%, while revenue growth continued to slow. For some customers, revenue from self-managed software licences shifted from recognition at contract signing to recognition over the contract term. The maximum potential FY27 deferral is c.US\$13mn and is not yet included in guidance; the company said the impact this quarter was not material.
Cybersecurity: Protection of AI cloud infrastructure, agent identity management and data security generate demand, monetised through security subscriptions, product bundling and firewall purchases.		
Fortinet 2Q26	Secured an eight-figure US dollar AI cloud security contract; billings for AI-driven security operations (AI-driven SecOps) products grew 25%.	AI cloud infrastructure buildout generated new security product bookings, while AI-enhanced SecOps products also recorded billings growth.
Okta 2QFY27	Secured dozens of AI identity security deals, several above US\$1mn, as demand for agent identity management translated into customer purchases.	New bookings expanded the AI identity security business, although the company expects the associated FY27 revenue contribution to remain small.
Qualys 2QFY26	Recorded six-figure and seven-figure US dollar AI product upsells, with existing customers increasing spending through AI product purchases.	Potential deals disclosed by the company are at procurement stages including product validation and budget confirmation.
Palo Alto Networks 4QFY26	Prisma AIRS ARR exceeded US\$100mn, while observability ARR exceeded US\$500mn. AI data centre buildout also drove hardware firewall purchases.	Migration of a large LLM customer to Chronosphere contributed more than US\$100mn of net new ARR in each of 3Q and 4Q. The company expects the migration to be completed in 1QFY27, with a smaller contribution to new ARR that quarter than in 4QFY26. Acquisitions, customer migration and the earlier recognition of some firewall revenue all affected growth.
Zscaler 4QFY26	Security for AI bookings grew more than 50% QoQ, with c.70% of AI security deals also including data security solutions.	Net new ARR excluding Red Canary grew 17%, above 7% in FY25 and 10% in 1HFY26. Higher churn among Red Canary customers at renewal is reflected in FY27 revenue growth guidance of 16.6%–17.5%.
Enterprise applications: AI is embedded in customer management, content creation and enterprise workflows, monetised through standalone subscriptions, package upgrades, seat expansion and usage credits.		
Salesforce 2QFY27	Agentforce ARR exceeded US\$1.5bn, with combined Agentforce and Data 360 ARR approaching US\$3.9bn. The company added 2,000 paying customers using Agentforce in production during the quarter, with new additions up 70% QoQ. Average deal size for customers undertaking agentic transformation was c.2x that of other customers.	The company raised FY27 revenue guidance, with Agentforce, Data 360, Slack and other businesses contributing c.US\$100mn of the increase. Revenue grew 10.8% YoY this quarter, including US\$456mn of consolidated Informatica revenue.
Adobe 3QFY26	AI-first ARR exceeded US\$650mn, up more than 150% YoY. ARR from the Firefly app and credit packs grew 40% QoQ, while Acrobat AI Assistant monthly active users doubled QoQ. AI-first has a broader scope than the standalone Firefly metric.	Raised full-year revenue and EPS guidance, while maintaining the fiscal year-end ARR growth target of 10.2%. Alongside expanding paid adoption, the company continues to develop its freemium user base and AI usage, with revenue growth affected by the pace of free-to-paid conversion.

Company / period	AI monetisation progress this quarter	Impact on revenue and profit
ServiceNow 2Q26	AI ACV exceeded US\$1bn, and AI net new ACV grew more than 40% QoQ. Customers upgraded to new AI-native product packages at prices 20%–30% higher, while the number of first-time agentic AI deals grew more than 45% YoY.	Subscription revenue grew 23% at constant currency. Management said around half of the subscription revenue beat versus guidance was attributable to revenue from on-premises deployments originally scheduled for recognition in 3Q but recognised in 2Q. Both AI contract growth and recognition timing affected the quarter's performance.
monday.com 2Q26	The company combines application subscriptions with usage-based pricing; AI ARR doubled QoQ and, based on the company's definition, was equivalent to 17% of net new ARR in the quarter. Existing customers purchased additional AI credits after exhausting the allowances included in their packages.	Management said the AI business remained small in absolute terms. Group revenue growth slowed 4.7ppts YoY, NRR was under pressure and expansion by existing customers slowed.
Atlassian 4QFY26	Rovo reached more than 80% of Fortune 500 companies, with assisted actions up 50% QoQ. ARR growth among customers adopting Rovo was more than 2x that of non-adopters. Teamwork Collection encouraged package upgrades by offering more Rovo credits.	Management linked adopters' growth performance to package upgrades, seat expansion and cross-selling. FY27 group revenue growth guidance is 13%, including 25.5% growth in cloud revenue and a 17% decline in Data Center revenue.
HubSpot 2Q26	More than 55% of customers on Pro or higher subscription tiers used an agent or Breeze Assistant. Monthly agent actions have increased by more than 3x since the start of the year, while Customer Agent can autonomously resolve 72% of customer enquiries.	AI credit consumption increased, but pricing adjustments and trial arrangements extended the customer journey from trial to payment. NRR was broadly flat.
Vertical software: AI data centre construction increases demand for project management, with existing industry software serving new projects; industry agents expand the range of workflow applications.		
Procore 2Q26	Nine of the top 10 data centre projects in North America use Procore. The company signed a cross-region AI data centre contract worth nearly US\$7mn this quarter; 20 construction agents are now generally available.	New contracts cover project execution, document control and cost management, with AI data centre construction generating new project management software bookings. Customers also expanded their use of construction AI products.

Source: Company data, Bloomberg, CMBIGM

Note: Data as of 13 September 2026.

■ AI cost savings and efficiency: measurable workflow gains emerge as vendors increase AI investment

AI has delivered measurable efficiency gains in customer service and project collaboration. Salesforce's internal Help Agent handled more than 5mn conversations, autonomously resolving 64%; the company said Slackbot could save 8.1mn working hours on an annualised basis. HubSpot's Customer Agent can autonomously resolve 72% of customer enquiries. Procore customer Consigli reduced drawing search time from 30 minutes to five minutes and expanded usage from three pilot projects to 50 projects.

Higher AI costs have partly limited margin expansion. Snowflake management said AI workloads currently carry lower contribution margins, prompting an adjustment to FY27 non-GAAP product gross margin guidance to 74%. However, control over personnel expense growth enabled an increase in non-GAAP OPM guidance from 13.5% to 14.5%. HubSpot said AI costs partly offset non-GAAP OPM improvement. monday.com plans to reinvest most of its c.US\$100mn in cost savings in AI, talent and products.

Focus on companies with above-peer improvements in revenue growth and OPM

Higher customer usage, product upgrades and cost control are the main drivers of operating improvement among software companies. Of the 49 software companies, eight recorded YoY increases in both revenue growth and OPM above their respective subsector medians: MongoDB, Fastly and JFrog in data and developer infrastructure; Fortinet in

cybersecurity; Palantir, Atlassian and Kingdee in enterprise applications; and Procore in vertical software. Among them, the four companies MongoDB, Fortinet, Atlassian and Palantir also recorded absolute levels of revenue growth and OPM above their respective subsector medians in the period. In terms of business drivers, MongoDB benefited from growing database customer demand, Fortinet from accelerating sales of security appliances, and Atlassian from cloud business growth and cost control, which together supported improved profitability. Palantir delivered growth in both revenue and profit as existing customers expanded their product usage.

■ **Data and developer infrastructure: Higher customer usage and product upgrades accelerate revenue growth, while revenue growth outpacing expense growth supports margin improvement**

MongoDB, Fastly and JFrog recorded YoY increases in revenue growth of 6.8ppts, 10.9ppts and 5.3ppts, respectively, in their latest fiscal quarters, alongside OPM improvements of 14.7ppts, 17.0ppts and 12.3ppts, all above the data and developer infrastructure subsector medians. The three companies had different growth drivers: MongoDB was primarily driven by its enterprise business and higher Atlas customer usage; Fastly benefited from a recovery in network services usage and expansion of its security business; and JFrog benefited from cloud growth and greater penetration of higher-tier plans. In terms of profitability, MongoDB turned profitable at the operating level, while Fastly and JFrog continued to narrow their operating losses.

MongoDB's revenue acceleration was mainly driven by Enterprise Advanced (EA) and other businesses. Revenue grew 30.5% YoY in 2QFY27 (2QFY26: 23.7%), with Atlas revenue up c.29% and EA and other revenue up c.36%. Atlas provides managed cloud database services, while EA serves enterprises that manage their own database deployments; together, the two products address different enterprise deployment needs. Large existing customers increased their Atlas usage during the quarter, while the enterprise business also grew. On profitability, a higher share of revenue from products including EA, alongside improved cost efficiency from Atlas' larger scale, lifted gross margin from c.71% to 74%. Operating expenses rose c.12%, below revenue growth, lifting OPM from -11.0% to 3.7%. Revenue growth, a change in product mix and a lower expense ratio together drove the company to an operating profit.

Fastly's improved growth reflected a recovery in existing customer usage and higher sales of security products. Revenue grew 23.3% YoY in 2Q26 (2Q25: 12.3%), with network services revenue up 17% and security revenue up 43%; trailing 12-month net revenue retention reached 117%. Building on its content delivery and edge cloud services, the company has expanded into areas including website and API security. Higher usage by network services customers and a larger security revenue base together drove the recovery in group revenue growth. On profitability, cost of revenue was broadly flat as revenue grew, lifting gross margin from 54.5% to 63.3% and OPM from -24.8% to -7.9%. In addition to greater business scale, an adjustment to the estimated useful lives of servers and the completion of amortisation of certain intangible assets also contributed positively to cost optimisation.

Growth in JFrog's cloud business and higher-tier plans reflects increased platform usage and purchases of additional features by customers. The company provides software artifact management, distribution and security governance services; an expansion in customers' software development and deployment scale can drive greater platform consumption. Revenue grew 28.7% YoY in 2Q26 (2Q25: 23.5%), with c.83% of incremental revenue coming from expansion by existing customers. Cloud revenue grew 53% YoY and its share of revenue rose from 45% to 53%; the Enterprise+ plan's share of revenue increased from 55% to 59%, driving higher customer spending. Operating expenses rose c.15%, below revenue growth, lifting OPM from -20.4% to -8.1%. Compared with Fastly, which benefited more from lower cost of revenue, JFrog's margin improvement was mainly driven by customer expansion and controlled expense growth.

■ **Cybersecurity: Fortinet benefits from growth in product sales**

Fortinet's product revenue growth accelerated, while a lower expense ratio supported further OPM expansion. Revenue grew 25.6% YoY in 2Q26 (2Q25: 13.6%), mainly driven

by 52% YoY growth in product revenue, supported by higher FortiGate shipments, demand for high-performance models and price increases. On the demand side, technology upgrades, AI infrastructure deployments and additional purchases by existing customers drove security appliance sales, while SASE benefited from both expansion by existing customers and new customer additions. On profitability, although overall gross margin declined c.0.5ppts YoY, operating expenses rose only c.11% YoY, reflecting higher personnel costs but remaining below revenue growth, lifting OPM by 5.6ppts YoY to 33.7%. Fortinet's revenue growth and OPM for the period were both above the cybersecurity subsector medians, with revenue growth continuing to unlock operating leverage from an already high level of profitability.

■ **Enterprise applications: Customer expansion, a shift to cloud subscriptions and cost control drive improvement; Palantir records highly accelerated revenue growth**

Palantir, Atlassian and Kingdee all recorded improvements in revenue growth and OPM, but with different drivers: Palantir mainly benefited from customers expanding product usage, Atlassian from higher cloud product seat counts and plan upgrades, and Kingdee from a higher subscription revenue mix.

Customer expansion has driven rapid growth in Palantir's group revenue and profit. Through products including Foundry, Gotham and AIP, the company integrates customer data into business analysis and execution workflows. Additional use cases and broader deployments by customers can drive larger contracts. Revenue grew 92.8% YoY in 2Q26 (2Q25: 48.0%), with US commercial revenue up 149% and US government revenue up 90%. Additional purchases by existing customers were the main driver. Based on the company's disclosed incremental revenue, c.82% of incremental commercial revenue and c.98% of incremental government revenue came from customers already on board at end-2025, reflecting continued expansion in product usage within customer organisations. Revenue growth also improved gross margin and the expense ratio. In 2Q26, Palantir's gross margin rose from c.81% to 85%, while operating expenses grew c.34% YoY, below revenue growth, lifting OPM from 26.8% to 47.1%.

Atlassian maintained cloud business growth, while product cross-selling and cost control supported improved profitability. Revenue grew 27.6% YoY in 4QFY26 (fiscal year ended 30 June; 4QFY25: 22.3%), with cloud revenue up 31%, mainly driven by higher Jira and Confluence seat counts and cross-selling of the Teamwork Collection and Service Collection bundles. The company offers products for project collaboration, knowledge management and enterprise service workflows. Higher seat counts and purchases of additional products together drove cloud revenue expansion. On profitability, infrastructure optimisation, more efficient customer support, slower hiring and lower personnel costs following earlier restructuring lifted OPM from -2.1% to 11.9%.

Atlassian's revenue acceleration during the period also included the impact of more upfront revenue recognition in its Data Center business. The end-of-support plan increased the proportion of certain contract values recognised upfront, contributing to revenue and profit in the quarter. Cloud growth and cost control were therefore the main business drivers of operating improvement, while the change in licence revenue recognition further lifted reported growth and margin for the period.

Kingdee's subscription revenue outgrew group revenue, while a change in product mix and lower expense ratios together improved profitability. Revenue grew 13.6% YoY in 1H26 (1H25: 11.2%), subscription revenue rose 20.4%, and cloud business revenue reached 86% of group revenue. The company is advancing its transition to cloud subscriptions to address enterprise management needs in finance, supply chain and manufacturing. A higher contribution from higher-margin subscription revenue, alongside improved gross margins in implementation, consulting and maintenance services, lifted group gross margin by c.2.1ppts YoY to 67.7%. Selling and R&D expense ratios fell c.2.9ppts and 2.0ppts, respectively, while OPM, calculated on Bloomberg's adjusted basis, rose from -5.5% to 0.1%. AI products have also begun to contribute incremental revenue: revenue from AI-native products grew 189% YoY to c.RMB296mn in 1H26. However, the main sources of

the group's profitability improvement remained a shift in the subscription revenue mix and greater expense efficiency.

■ **Vertical software: Expansion among large customers drives Procore's revenue growth**

Expansion among large customers and controlled expense growth together drove Procore's operating improvement. The company provides construction management software to project owners, general contractors and specialty contractors. Customers adding projects, broadening deployments and buying more products can drive subscription revenue growth. Revenue grew 15.8% YoY in 2Q26 (2Q25: 13.9%). The number of customers with annual recurring revenue above US\$100,000 rose 14%, and their contribution to total ARR increased from 64% to 68%. Existing customers accounted for c.88% of incremental revenue in the quarter, including a full quarter of revenue from previously signed new and expansion contracts, reflecting the gradual conversion of earlier contract signings into revenue.

On profitability, Procore's selling, R&D and administrative expenses rose only c.3%, 5% and 1%, respectively, all below revenue growth, lifting OPM from -9.3% to 1.2%. A non-cash gain from a lease modification reduced rental expenses by c.US\$5mn YoY, while the completion of amortisation of certain acquired customer relationship assets also reduced expenses. OP for the quarter was c.US\$4.33mn, with the lease-related gain making a substantial contribution to the swing to an operating profit. Expansion among large customers and slower expense growth supported the overall margin improvement.

Other sectors: AI monetisation continues to deepen in advertising and creative use cases

Businesses with established monetisation channels can more readily convert AI capabilities into revenue and profit. Compared with application software, which still requires customer deployment, product adoption and pricing adjustments, advertising platforms and creative tools can monetise AI through existing transaction and subscription systems, shortening the path to commercialisation. AppLovin, Unity and Tencent's advertising business use AI to improve advertising performance and capture more customer budgets. In our view, better advertising efficiency, paid creative tools and lower service costs are areas of AI benefit beyond software that warrant attention.

■ **Advertising platforms: Model improvements lift advertising returns and, in turn, customer budgets, delivering growth in both revenue and profit**

For advertising platforms, AI's commercial value is directly reflected in ad targeting and conversion performance. Technology upgrades can be monetised through existing advertising infra, without the need to establish separate purchasing demand for AI products.

AppLovin's growth mainly reflects improved monetisation per ad. In 2Q26, revenue grew 53% YoY to US\$1.924bn and adjusted EBITDA rose 58% YoY to US\$1.614bn, with a margin of c.84%. AppLovin Ads' net revenue per installation increased 58% YoY, while installations fell 2%. Management explained that better recommendation model performance enabled advertisers to increase spending while meeting their target return on ad spending, creating a growth mechanism of model optimisation, improved advertising efficiency and higher advertising budgets.

The pace of model iteration also shapes quarterly growth momentum. AppLovin's management noted that model improvements in 2Q26 were smaller than usual, with more substantial upgrades launched only after quarter-end. Revenue grew 4% QoQ, slightly below the midpoint of prior guidance. With the upgraded models in use, the company's 3Q26 revenue guidance implies 7% – 8% QoQ growth, while the company also factors in higher training and inference costs. The effectiveness of model upgrades and the intensity of investment are key to assessing subsequent revenue growth and margin changes.

Unity is also using AI to improve advertising monetisation. In 2Q26, strategic Grow revenue rose 63% YoY to US\$329mn and group revenue grew 24% YoY to US\$546mn. The

company explicitly linked Grow's growth to the expansion of its advertising network driven by Vector.

Internet platforms can also benefit from more efficient monetisation of existing businesses without charging for standalone AI products. Tencent's marketing services revenue grew 22% YoY to RMB43.6bn in 2Q26. The company attributed growth to upgrades to its AI advertising recommendation model, AIM+ automated ad delivery and enhanced closed-loop marketing capabilities within the Weixin ecosystem. The core mechanism combines user understanding, ad targeting and conversion to improve advertiser performance and capture more budgets.

Beyond Kling, Kuaishou is also seeing signs of AI benefits in its advertising business. In 2Q26, ad spending using AIGC short-form video marketing materials grew more than 70% YoY, while online marketing revenue rose 4.4% YoY. The company continues to apply generative recommendation, smart bidding and content generation to marketing workflows. However, group adjusted net profit fell from RMB5.6bn to RMB3.9bn during the same period, as incremental contributions from advertising and new AI businesses had yet to offset changes in other businesses and investment pressure.

■ **Creative tools: AI expands into productivity use cases, creating room to grow paying users and spending per customer**

Compared with enterprise software that requires organisational procurement and deployment, creative tools used by individuals and small businesses can typically start with a single task, with users able to subscribe after experiencing improved efficiency. In our view, tangible product benefits and straightforward purchasing decisions are the main advantages supporting AI monetisation for these tools.

Meitu monetises its offerings through generative AI and tool subscriptions. In 1H26, revenue from its image and design products grew 30.9% YoY to RMB1.77bn, accounting for 80% of group revenue. Group revenue from continuing operations rose 22.1% YoY, while adjusted net profit attributable to shareholders grew 39.5% YoY. As of end-June 2026, ARR from AI productivity applications was c.RMB620mn. Paying users of productivity applications increased 29.8% YoY to 2.35mn, with average revenue per paying user c.50% higher than for lifestyle applications. AI applications are expanding from everyday photo editing to commercial design and content production, taking Meitu into higher-value paid use cases and driving core business growth through an expanding paying user base.

Stock recommendations

- 1) **Datadog (DDOG US; BUY): We believe the long-term industry trends of digital transformation and cloud migration are irreversible.** Together with Datadog's strong cross-selling capabilities and potential for overseas expansion, these underpin our positive view on its long-term business prospects. Our TP of US\$274.0 is based on 19.9x 3Q26E–2Q27E EV/sales, in line with its three-year average plus two standard deviations.
- 2) **Microsoft (MSFT US; BUY): We remain positive on Microsoft's long-term structural growth prospects.** Strong AI and digitalisation demand should support continued rapid growth in Azure, while strong growth in commercial remaining performance obligations (RPO) provides further support. Continued ARPU expansion in Productivity and Business Processes demonstrates steady progress in AI monetisation. In our view, tangible returns on Microsoft's capex are becoming increasingly evident in both its cloud business and first-party applications. Our DCF-based TP of US\$634.2 implies 32x FY27E PE.

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