US Internet & Software

2026 outlook: AI applications to ramp up; eyes on AI investment return

OUTPERFORM (Maintain)

Looking ahead to 2026, we believe competition in the large language model (LLM) industry will further intensify, while monetization of AI applications in niche segments should see continued momentum. We are optimistic about the further monetization potential driven by improved AI agent capabilities, as well as increased paid user penetration and monetization from advanced image editing and video generation LLMs. We currently do not anticipate over-investment risks among cloud service providers, and expect 2026 earnings growth of US-listed leaders to support their valuations. However, investors may adopt a more selective stock-picking approach, focus on investment return cycles, and prioritize companies with substantial AI monetization progress and those where AI-related investments efficiently drive revenue and profit growth. We recommend Microsoft (MSFT US), Alphabet (GOOG US), Amazon (AMZN US), and Palo Alto Networks (PANW US).

- **LLMs outlook: Intensified competition, enhanced capabilities, lower costs, and expanding application ecosystem.** In 2025, competition intensified across all segments of the LLM industry, with continuous iterative upgrades in model capabilities. Meanwhile, call costs for the same models continued to decline, and industry applications were gradually rolled out. Key industrial trends include: 1) AI agent capabilities have emerged as a core focus; 2) Accelerated release and iteration of open-source LLMs; 3) Native end-to-end voice interaction models have become feasible for large-scale deployment; 4) Further advancements in image editing and video generation LLMs. Looking ahead to 2026, we believe competition has not yet entered a moderation phase, and the industry will continue to explore cutting-edge model capabilities while advancing industrial applications of LLMs.
- **Cloud service providers' sequential revenue growth acceleration, no near-term over-investment concerns.** YoY revenue growth of cloud business among US internet companies further accelerated sequentially in 3Q25. Driven by strong demand, cloud service providers' capex surged to US$93.1bn (+71% YoY). The impact of AI investments on profit margins has become divergent: while cloud-related capex has affected profit margins, the impact is better than expected and has driven steady profit growth—cloud service providers' cloud business operating profit rose 24.1% YoY in 3Q25 (2Q25: 23.5%). However, for industries with longer investment return cycles (e.g., advertising), investors should pay closer attention to investment pace and its impact on profit margins.
- **AI monetization: Driving core business growth, exploring new revenue streams, and cost optimization.** Reviewing AI monetization and application progress of leading companies, we observe that AI continues to drive growth in core businesses such as cloud and advertising while creating new revenue opportunities. Meanwhile, internal AI applications have continuously delivered cost reduction and efficiency improvements, which are expected to support long-term margin expansion and profit growth. Commercialization of enterprise AI applications lags behind AI cloud and advertising, but due to the asset-light model of enterprise SaaS vendors (with limited CapEx) and their active use of AI to enhance operational efficiency, SaaS vendors can still maintain margin improvements and robust profit growth, in our view.
- **Focus on two key scenarios for AI monetization opportunities.** Gartner forecasts that global AI total spending will grow 37% YoY to US$2.0tn in

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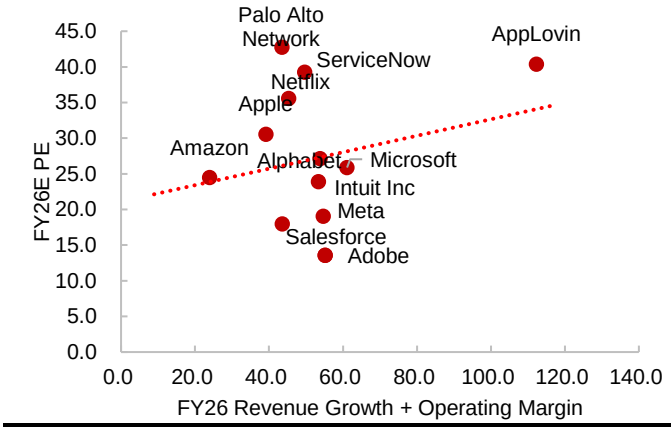
2026, with AI IaaS, AI infrastructure software, AI LLMs, AI PCs, and AI application software being the top 5 fastest-growing segments. Commercial progress of AI applications remains a key market focus. Looking ahead to 2026, we recommend focusing on two scenarios for AI application deployment and commercialization: 1) Scenarios where AI LLMs excel: e.g., programming, creative content generation, and office productivity. We are optimistic about Kuaishou (1024 HK), a relative leader in AI video applications. 2) High-value AI application scenarios: e.g., enterprise AI agents, and traditional vertical industries such as education, finance, and legal services. We favor ServiceNow (NOW US) and Salesforce (CRM US), which hold leading positions in enterprise AI agents.

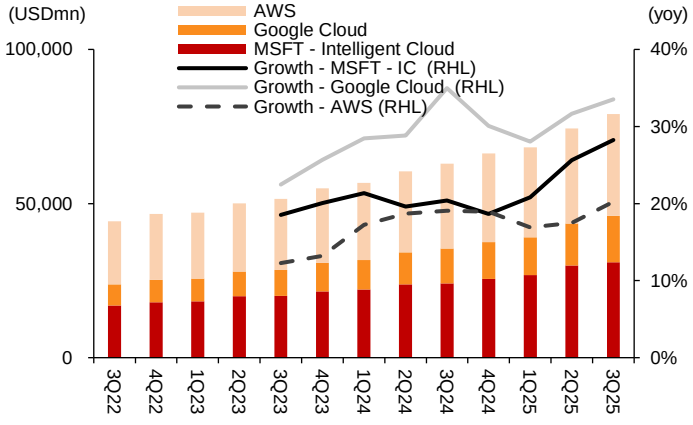
Key charts

Figure 1: US tech: valuation vs fundamental outlook



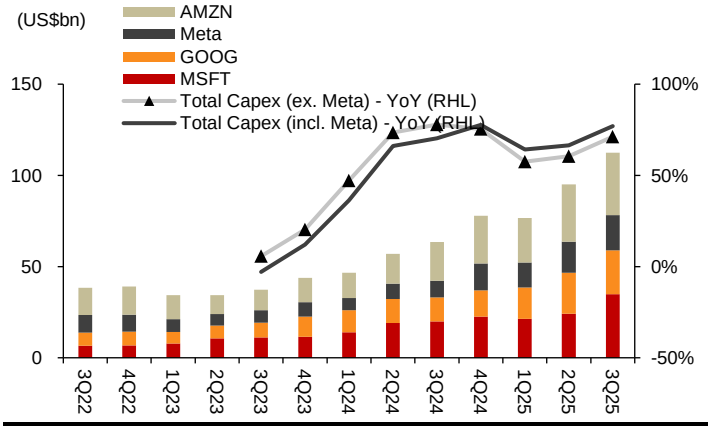
Source: Bloomberg, CMBIGM

Figure 2: US cloud service providers: cloud business unit revenue growth



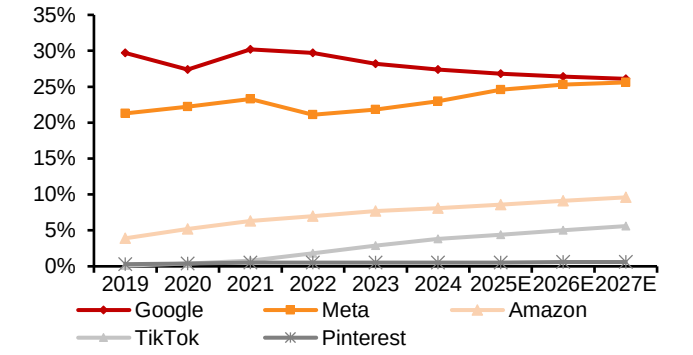
Source: Company data, CMBIGM

Figure 3: Major US tech vendors: capex trend



Source: Company data, CMBIGM

Figure 4: Global digital advertising market: leading vendors' market share



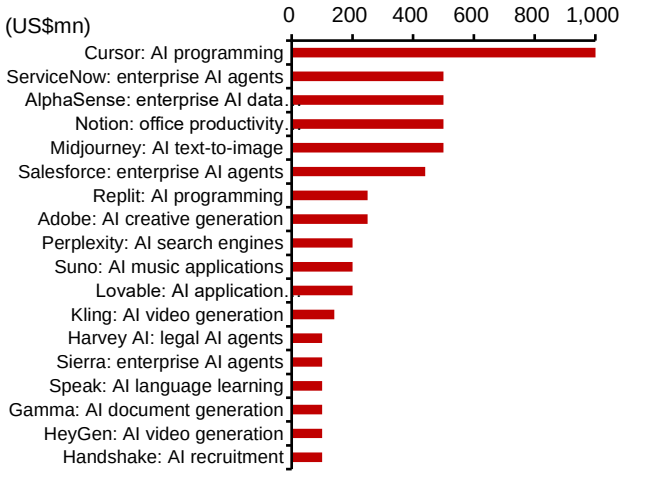
Source: eMarketer, CMBIGM

Figure 5: Global AI total spending breakdown

(US$bn)	2024	2025E	2026E	2026E YoY growth
AI Services	259	283	325	15%
AI Applications	84	172	270	57%
AI Infra	57	126	230	82%
AI LLMs	6	14	26	81%
AI Server	140	268	330	23%
AI IaaS	7	18	38	105%
AI Semi	139	209	268	28%
AI PC	51	90	144	60%
AI Phone	245	298	393	32%
Total AI spend	**988**	**1,479**	**2,023**	**37%**

Source: Gartner, CMBIGM

Figure 6: AI application software: latest ARR level



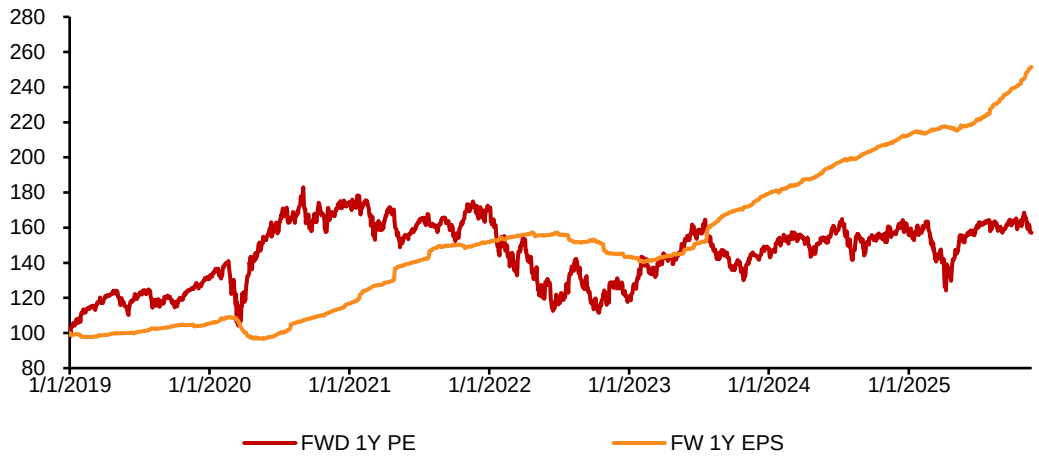
Source: ARR Club, company data, CMBIGM

Core views, sector review & investment recommendations

Sector review

Since 2019, the Nasdaq 100 Index has risen 295%, primarily driven by upward earnings revisions. According to Bloomberg consensus estimates, the index's 1-year forward EPS has grown 151% since 2019, while the 1-year forward PE has increased 57% to 26.2x over the same period. The current valuation of the Nasdaq 100 (26x PE) is 8% higher than, or approximately 0.6 standard deviation above the post-2019 average (24x), indicating valuations remain in a relatively reasonable range.

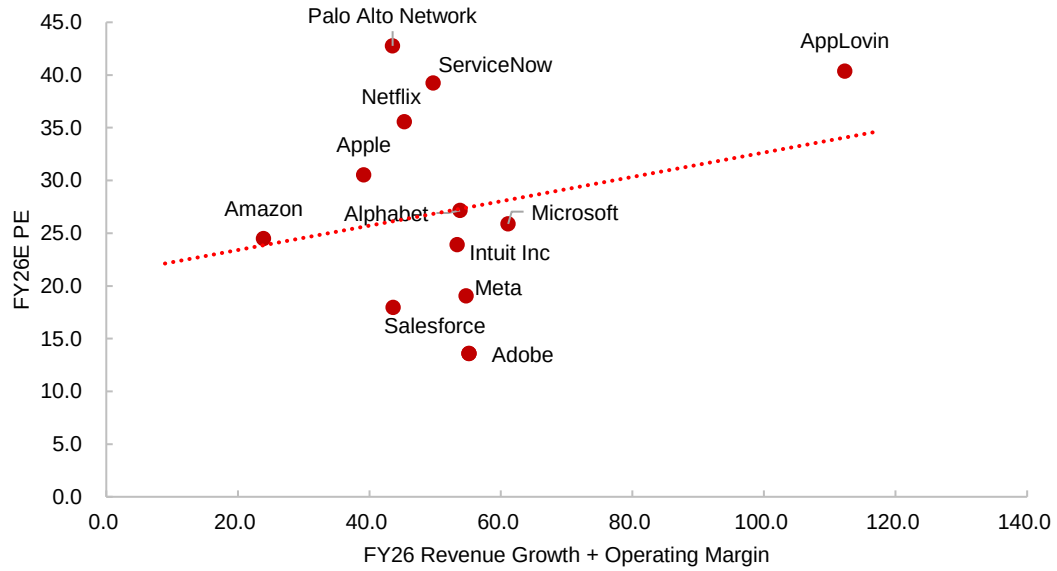
Figure 7: Nasdaq 100 Index: 1-year forward PE & EPS trend



Source: Bloomberg, CMBIGM
Note: PE and EPS starting from January 1, 2019 are used as the benchmark (indexed to 100).

Based on our forecasts of the companies' FY26 fundamentals (FY26 revenue growth + operating margin) and PE levels: Microsoft/ Meta/ Salesforce/ Adobe are relatively undervalued; Amazon/ Alphabet are reasonably valued; Palo Alto Networks/ ServiceNow/ Netflix are relatively overvalued.

Figure 8: US tech: valuation vs fundamental outlook



Source: Bloomberg, CMBIGM

Figure 9: US tech valuations

Company	Ticker	Price (Local)	Mkt cap (USDmb)	PE (x) 2025E	PE (x) 2026E	PS (x) 2025E	PS (x) 2026E	PEG 2026E	EPS CAGR 24-26E
NVIDIA Corp	NVDA US	183.4	4,456,134	38.9	24.0	20.9	13.7	0.7	58%
Apple Inc	AAPL US	280.7	4,147,722	34.3	31.7	9.2	8.6	4.2	8%
Alphabet Inc	GOOG US	318.4	3,837,208	29.0	27.4	11.3	9.9	1.6	18%
Microsoft Corp	MSFT US	480.8	3,573,784	29.9	25.4	11.0	9.5	1.7	18%
Amazon.com Inc	AMZN US	229.1	2,449,235	26.1	23.0	3.4	3.1	0.8	34%
Meta Platforms Inc	META US	661.5	1,667,762	23.4	20.3	8.4	7.1	12.2	2%
Tesla Inc	TSLA US	454.5	1,511,685	NA	NA	15.9	14.0	NA	-5%
Oracle Corp	ORCL US	214.3	611,010	30.7	26.1	9.1	7.3	1.9	16%
Netflix Inc	NFLX US	103.2	437,377	39.5	33.3	9.7	8.6	1.9	21%
Palantir	PLTR US	177.9	423,879	NA	NA	96.5	67.5	NA	62%
Salesforce Inc	CRM US	247.5	231,870	21.1	18.6	5.6	5.1	1.8	12%
AppLovin Corp	APP US	683.8	231,087	NA	46.6	40.7	29.8	NA	77%
Intuit Inc	INTU US	663.1	184,518	28.3	24.8	8.7	7.7	2.0	14%
ServiceNow Inc	NOW US	838.9	174,050	47.8	40.2	13.1	11.1	2.2	22%
Adobe Inc	ADBE US	328.7	137,606	15.5	14.1	5.8	5.3	1.8	8%
Palo Alto Network	PANW US	195.7	136,389	49.6	43.9	13.0	11.4	3.3	15%
Crowdstrike	CRWD US	513.1	129,357	NA	NA	26.9	22.1	NA	13%
Cadence	CDNS US	337.3	91,813	47.5	42.5	17.4	15.5	3.2	15%
Synopsys Inc	SNPS US	463.7	86,139	40.6	33.4	12.2	8.9	3.4	12%
Snowflake	SNOW US	234.8	79,540	NA	NA	17.1	13.8	NA	43%
Autodesk Inc	ADSK US	305.9	64,840	29.4	26.2	9.1	8.1	0.8	38%
Fortinet Inc	FTNT US	85.2	63,344	30.7	28.5	9.4	8.4	3.1	10%
Workday Inc	WDAY US	216.6	56,971	23.2	19.8	6.0	5.3	1.1	21%
Datadog	DDOG US	153.0	53,690	NA	NA	15.8	13.1	NA	16%
Average				**32.5**	**28.9**	**16.5**	**13.1**		

Source: Bloomberg, CMBIGM
Note: Data as of 4 Dec 2025

Investment recommendations

1) **Microsoft (MSFT US, BUY, TP: US$636.3):** We believe Microsoft's earnings results reflects sustained strong cloud revenue growth and rising ARPU driven by ongoing Copilot monetization. In the short term, we do not anticipate AI-related over-investment risks—disclosed backlog and order data indicate robust near-term demand, and incremental contracts with OpenAI are expected to further support cloud revenue growth. The company's AI investments have driven significant revenue growth while exerting a milder-than-expected impact on profit margins, demonstrating solid business fundamentals and operational efficiency improvement capabilities. We forecast FY26 net profit to grow 13.4% YoY, supported by steady revenue growth and margin expansion in Productivity and Business Processes as well as More Personal Computing segments, which will underpin stock price gains. Our DCF-based target price is US$636.3, corresponding to 34.8x 2027E PE.

2) **Alphabet (GOOG US, BUY, TP: US$328.0):** In the short term, AI empowerment for Alphabet significantly outweighs competitive pressures from AI vendors. AI search products such as AI Overviews and AI Mode have accelerated paid click growth, while AI-driven cloud demand has boosted Google Cloud's revenue growth and operating margin. Driven by the accelerated growth of Google Cloud and core search business, we expect Alphabet to maintain steady profit growth in FY26 (16% YoY growth in operating profit). Additionally, progress in Gemini large model, TPU chips, and AI applications should further support fundamentals and stock price, in our view.

3) **Amazon (AMZN US, BUY, TP: US$269.0):** Benefiting from the easing of power supply constraints, Amazon showed a sequential acceleration in cloud revenue YoY growth.

Further growth in backlog and management's positive guidance on power infrastructure development to alleviate supply-side pressures suggest cloud revenue growth may accelerate in the coming quarters. For the e-commerce segment, excluding two one-time charges (US$2.5bn related to the FTC legal settlement and US$1.8bn in expected severance costs for planned layoffs), North American e-commerce profits met our expectations, and international e-commerce operating margin grew YoY—demonstrating the company's ability to continuously optimize service costs and operational efficiency. Additionally, the meeting between Chinese and US heads of state has led to marginal easing of geopolitical tensions and reduced market concerns over incremental tariffs. We believe operating profit growth remains the key driver of stock price gains, forecasting 16%/28% YoY growth in 2025/2026 operating profit. Our target price of US$269 per ADS is based on 17.5x EV/EBITDA (3Q25-2Q26E), in line with the two-year trading average.

4) **Palo Alto Networks (PANW US, BUY, TP: US$236.7):** We view Palo Alto Networks as a key beneficiary of the generative AI era, as security demand is poised to grow steadily with the expansion of AI-related deployments. We forecast FY26 revenue/non-GAAP net profit to grow 14%/18% respectively, with a free cash flow margin of 38.4%. Its financial performance consistently meets the "Rule of 50", which should support valuations. Our target price of US$236.7 is based on 15.4x EV/sales, equivalent to the two-year average plus two standard deviations.

5) **Datadog (DDOG US, BUY, TP: US$203.7):** Given the long-term trends of digital transformation and cloud migration, we are optimistic about Datadog's long-term growth potential. Accelerated cloud industry revenue growth is expected to benefit cloud infrastructure monitoring platforms, and Datadog has demonstrated the ability to continuously expand its customer base and cross-sell software products across the entire value chain from development to business operations. Despite being in the investment phase, Datadog maintains strong financial performance meeting the Rule of 40. As investments gradually yield returns and AI-native customer demand continues to grow, we expect the company's fundamentals to remain solid. Our target price of US$203.7 is based on 16.6x EV/sales, in line with the two-year average plus one standard deviation.

6) **Meta (META US, BUY, TP: US$880.0):** Leveraging its leading revenue/user/data advantages in the social advertising industry, we expect Meta to benefit from AI development in the long term. However, management's aggressive FY26 expense guidance (total expense growth to significantly outpace 2025) has raised investor concerns about FY26 profit growth prospects—particularly investments in self-developed large models and long-term projects such as MSL may weigh on near-term profit margins. We forecast FY26 operating profit growth to slow to 2% YoY, primarily due to AI infrastructure and staffing investments. The stock faces short-term valuation pressure amid slower profit growth and increased earnings uncertainty.

7) **ServiceNow (NOW US, BUY, TP: US$1,180.0):** Backed by its enterprise customer base, first-mover advantages, and product innovation capabilities, we expect ServiceNow to continue benefiting from generative AI opportunities—AI products will drive sustained upsell/cross-sell growth. The company targets AI product ACV exceeding US$500mn/US$1bn by end-FY25/FY26 (accounting for ~4%/6% of total revenue), a significant increase from US$250mn in 1Q25. Meanwhile, ServiceNow uses AI to continuously improve internal operational efficiency, and we expect FY26 non-GAAP operating margin to rise by another 1 ppt. We believe the company's current strong revenue growth and margin improvement will support its high valuation.

8) **Salesforce (CRM US, BUY, TP: US$392.0):** We are optimistic about Salesforce's AI commercialization trend, supported by its differentiated Agentforce solutions and Data Cloud integration offerings. In 3QFY26, Agentforce and Data 360 ARR grew 114% YoY to ~US$1.4bn, with Agentforce ARR surging 330% YoY to over US$500mn. Given the rising AI agent growth opportunities, management guided that: 1) Total revenue to exceed US$60bn by FY30E, with a 5-year CAGR of over 10% for organic revenue (FY26-30); 2) the "Rule of 50" to be met by FY30E (subscription revenue YoY growth + non-GAAP operating margin > 50%). The stock currently trades at only 19x FY27E PE, offering a high margin of safety relative to peers.

Figure 10: Revenue and operating profit growth of the "Magnificent 7"

(US$bn)	2022	2023	2024	2025E	2026E
Revenue					
Apple	394.3	383.3	391.0	416.2	449.2
Microsoft	198.3	211.9	245.1	281.7	326.3
Amazon	514.0	574.8	638.0	714.5	795.3
Alphabet	233.9	256.5	295.1	344.2	392.9
Meta	116.6	134.9	164.5	199.4	235.5
Nvdia	26.9	27.0	60.9	130.5	213.2
Tesla	81.5	96.8	97.7	95.2	108.3
YoY Growth					
Apple		-2.8%	2.0%	6.4%	7.9%
Microsoft		6.9%	15.7%	14.9%	15.8%
Amazon		11.8%	11.0%	12.0%	11.3%
Alphabet		9.7%	15.1%	16.6%	14.2%
Meta		15.7%	21.9%	21.2%	18.1%
Nvdia		0.2%	125.9%	114.2%	63.4%
Tesla		18.8%	0.9%	-2.6%	13.8%
Total Revenue	**1,565.4**	**1,685.1**	**1,892.3**	**2,181.6**	**2,520.7**
YoY Growth		**7.6%**	**12.3%**	**15.3%**	**15.5%**
Operating Profit					
Apple	119.4	114.3	123.2	133.1	144.1
Microsoft	83.4	89.7	109.4	128.5	150.5
Amazon	12.2	36.9	68.6	79.9	100.4
Alphabet	74.8	84.3	112.4	131.9	155.5
Meta	28.9	46.8	69.4	82.4	86.2
Nvdia	12.7	9.0	37.1	86.8	134.6
Tesla	13.7	8.9	7.1	4.6	7.2
YoY Growth					
Apple		-4.3%	7.8%	8.0%	8.3%
Microsoft		7.6%	22.0%	17.4%	17.1%
Amazon		200.9%	86.1%	16.4%	25.7%
Alphabet		12.6%	33.3%	17.4%	17.9%
Meta		61.5%	48.4%	18.7%	4.7%
Nvdia		-28.8%	310.8%	133.7%	55.1%
Tesla		-34.9%	-20.4%	-35.6%	57.4%
Total Operating Profit	**345.2**	**389.8**	**527.2**	**647.0**	**778.5**
YoY Growth		**12.9%**	**35.2%**	**22.7%**	**20.3%**

Source: Bloomberg, CMBIGM

Note: 1) Bloomberg consensus estimates as of November 28, 2025; 2) Microsoft data comparison covers FY22-FY26E

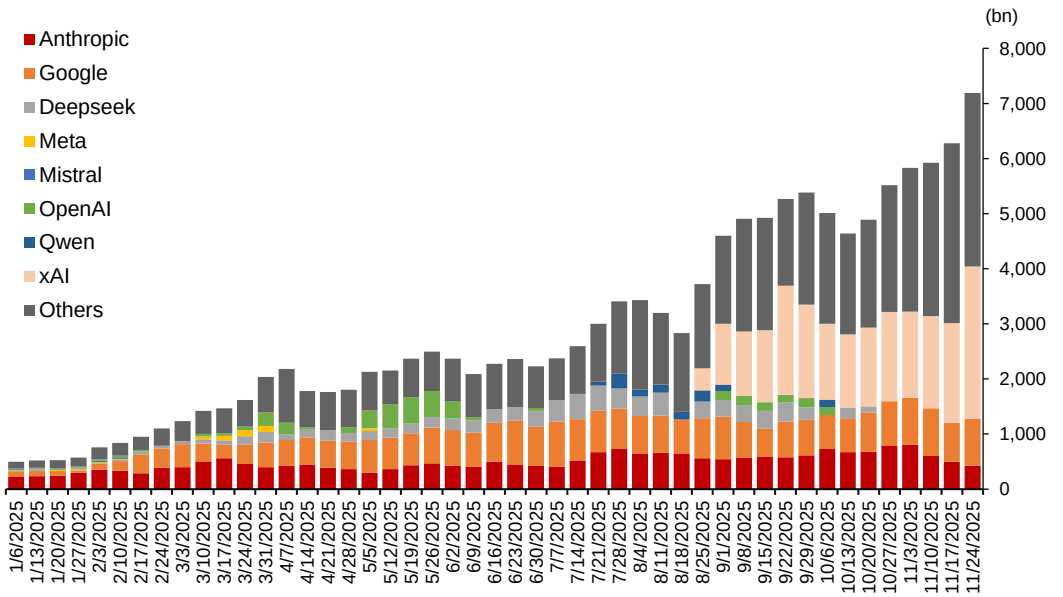
LLMs development: intensified competition, improved capability, cost reduction and enriching applications

Review of 2025: Competition has intensified across all segments of the large language model (LLM) industry, with continuous iterative upgrades in model capabilities. Meanwhile, call costs for the same models have continued to decline, and industry applications have been gradually rolled out. Key industrial trends include: AI agent capabilities have emerged as a core focus; accelerated release and iteration of open-source LLMs; native end-to-end voice interaction models have become feasible for large-scale deployment; and further advancements in image editing and video generation LLMs. Looking ahead to 2026, we believe competition has not yet entered a moderation phase—the industry will continue to explore cutting-edge model capabilities while advancing industrial applications of LLMs, and monetization of AI applications in niche segments is expected to maintain growth momentum. We are optimistic about the further monetization potential driven by improved AI agent capabilities, as well as increased paid user penetration and monetization from advanced image editing and video generation LLMs.

LLM industry development trends: intensified competition, enhanced capabilities, and lower costs

Overall, since 2025, global LLM token usage volume has seen significant rapid growth, with the AI industry accelerating from technology validation to large-scale application. Data from the OpenRouter platform shows that the peak weekly token usage volume of LLMs on its platform exceeded 7T in 4Q25, nearly doubling the peak in 3Q25. Among them, leading vendors such as xAI Grok and Google Gemini have witnessed particularly prominent growth in LLM token usage: xAI Grok's weekly token usage reached 3.15 tn in November 2025, surging over 692% from 397bn at the end of August. The adaptability of model capabilities to scenarios and pricing strategies are the core drivers of LLM token consumption growth. xAI Grok and Google Gemini, while capable of rapid technological iteration, are bound to high-value vertical scenarios such as programming, achieving absolute leading market share in "AI + programming" scenarios; Anthropic Claude has maintained its market share through continuously optimized pricing strategies.

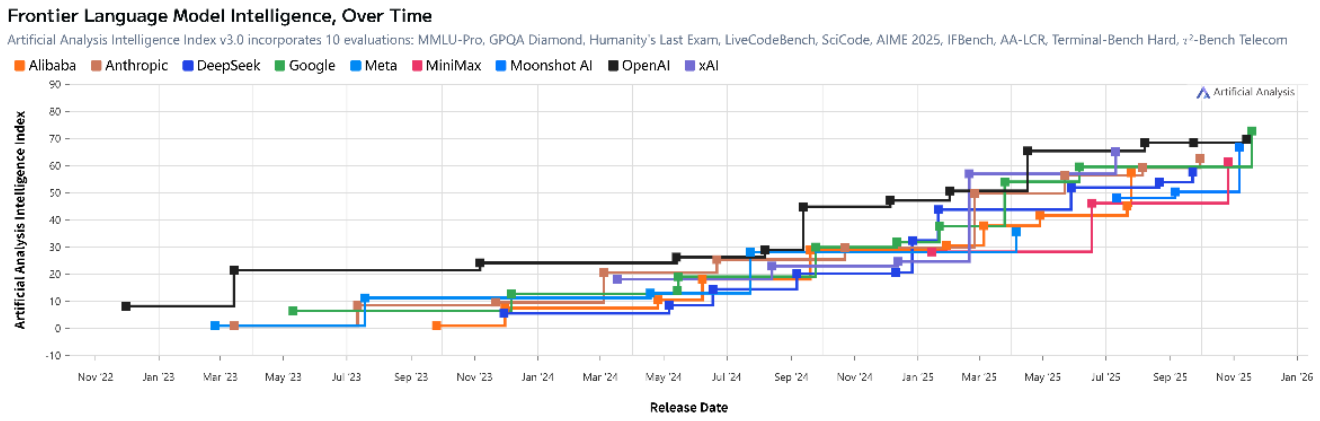
Figure 11: 2025 full view of token usage volume for leading large language models



Source: OpenRouter，CMBIGM

Based on the iteration speed and intelligent capabilities of leading LLMs, the entire industry is demonstrating a trend of continuously accelerating iteration cycles and persistent breakthroughs in intelligent capabilities. According to the Artificial Analysis Intelligence Index, as of November 24th, the most capable LLM in the industry to date is Google's Gemini 3 Pro preview.

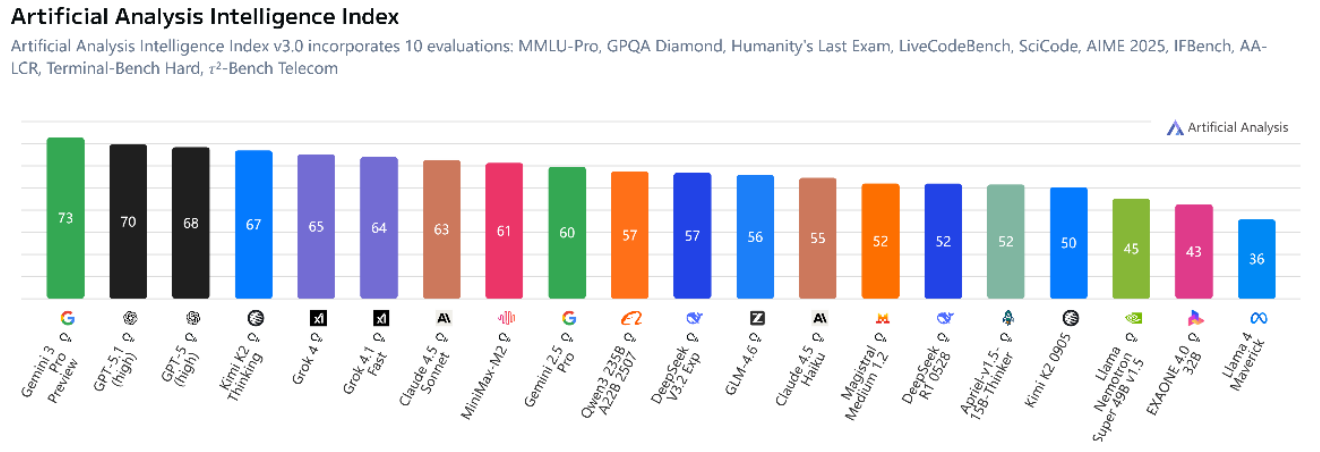
Figure 12: Comparison of model capabilities among mainstream LLMs



Source: Artificial Analysis, CMBIGM
Note: 1) The Artificial Analysis Intelligence Index covers 10 evaluation dimensions (the same below), mainly including: MMLU-Pro, GPQA Diamond, Humanity's Last Exam, LiveCodeBench, SciCode, AIME 2025, IFBench, AA-LCR, Terminal-Bench Hard, τ^2-Bench Telecom; 2) ranking is non-exhaustive; 3) ranking as of 24 Nov 2025.

Based on the overall capability scores of LLMs from Artificial Analysis data, US vendors including Google, OpenAI, xAI, and Anthropic maintain leading positions in the industry. Among Chinese vendors, the top-performing LLMs include Kimi developed by Moonshot, Deepseek by High-Flyer Quant, Minimax by Xiyu Technology, and Qwen by Alibaba Group, all of which demonstrate industry-leading capabilities.

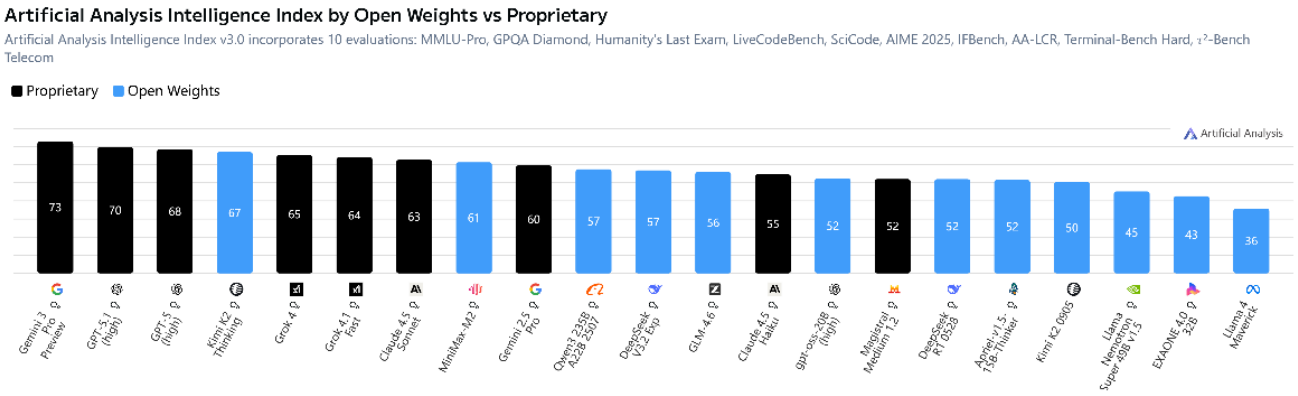
Figure 13: Ranking of capabilities of mainstream LLMs



Source: Artificial Analysis, CMBIGM
Note: 1) ranking is based on the Artificial Analysis Intelligence Index; 2) ranking as of 24 Nov 2025.

Based on the capability comparison between open-weights and proprietary models, Chinese model vendors have generally focused on exploring the open-weights route. Currently, the most capable open-source model is Kimi K2 Thinking. However, we have also observed a trend where US vendors are accelerating their exploration of open-source models. For instance, OpenAI released its open-weight language model GPT-oss in August 2025.

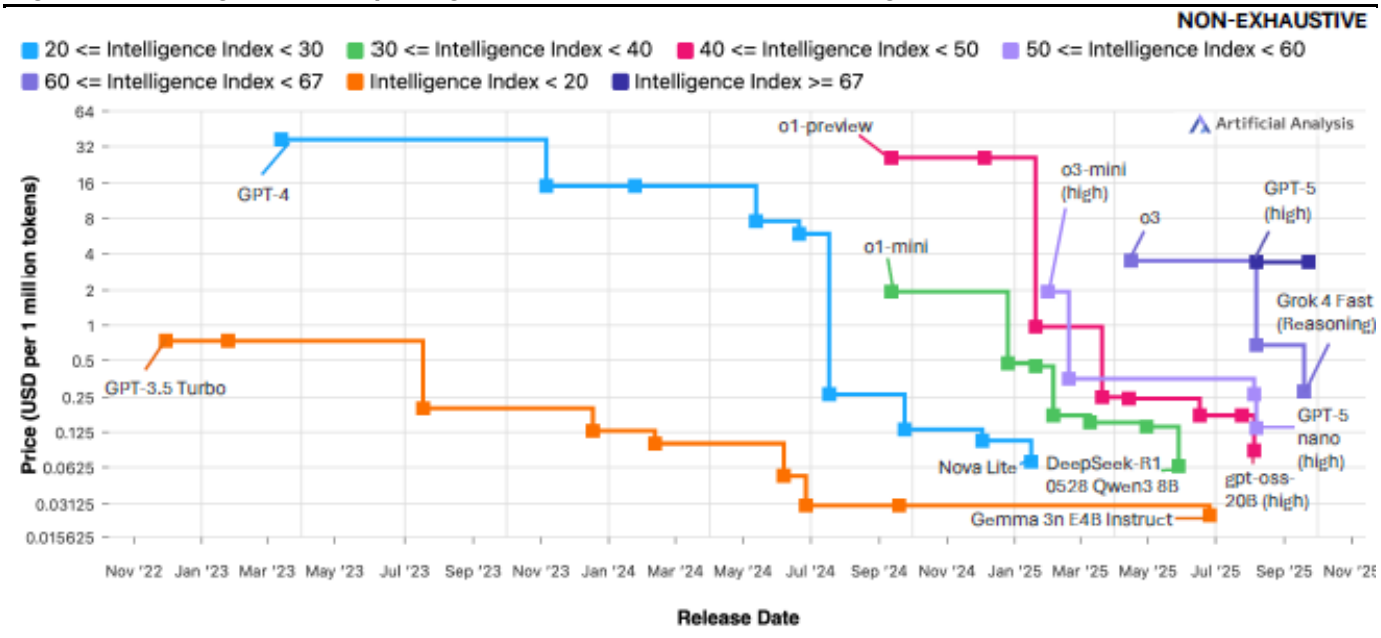
Figure 14: LLM capability comparison: Open-weights vs. proprietary model



Source: Artificial Analysis, CMBIGM
Note: 1) ranking is based on the Artificial Analysis Intelligence Index; 2) ranking as of 24 Nov 2025.

On the model inference cost front, based on data from Artificial Analysis, we have observed two key trends overall: 1) the inference costs of representative models within each group classified by different intelligent capability levels have continued to decline over time; 2) At the same point in time, accessing more powerful LLMs does require a higher price; however, over an extended time horizon, the inference costs of representative models across all groups have fallen, and the narrowing cost gap between different groups is expected to further drive the prosperity of the application ecosystem.

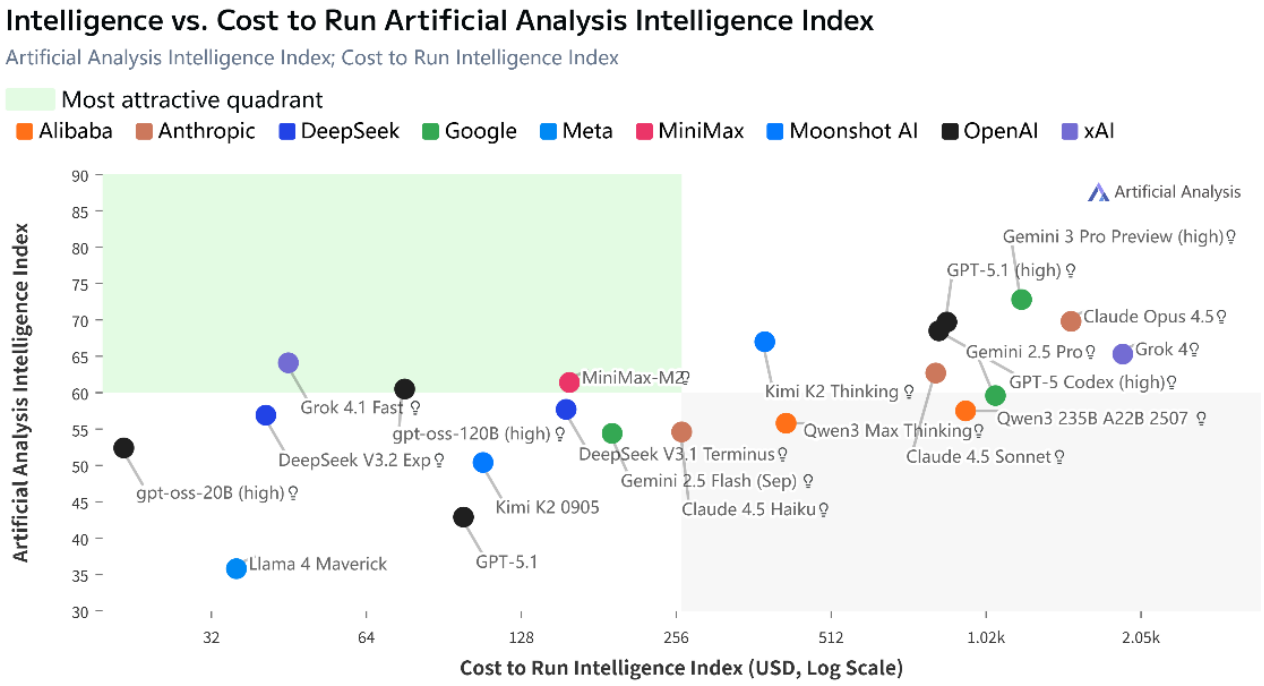
Figure 15: Pricing: Inference pricing continues to fall across all intelligence classes



Source: Artificial Analysis, CMBIGM
Note: price in USD per 1mn tokens (blended input to output token price 3:1).

From an industry comparison perspective, based on the comprehensive measurement of cost efficiency—integrating the intelligent capability index of different models and the costs required to complete the corresponding index tests—among current models, certain versions of Minimax, Grok, and GPT series rank in the most attractive quadrant. Models such as Kimi and Deepseek are also close to this high-value quadrant.

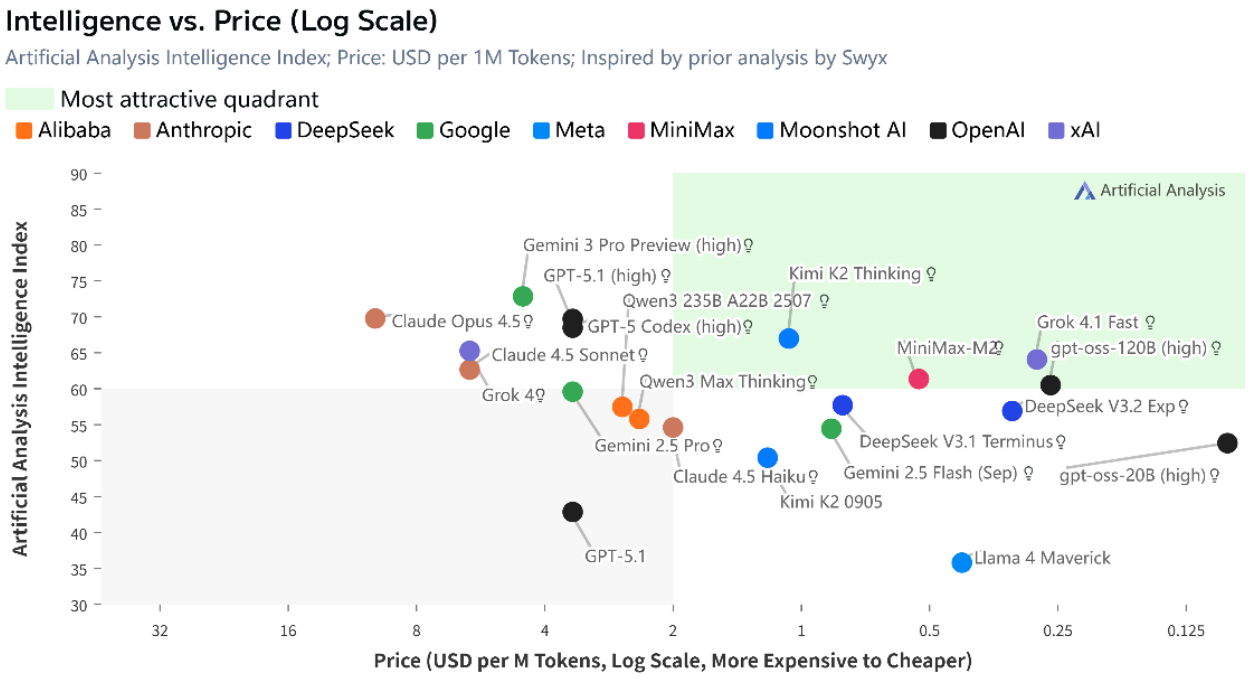
Figure 16: Intelligence vs Cost to Run Artificial Analysis Intelligence Index



Source: Artificial Analysis, CMBIGM

From the perspective of cost-performance ratio for enterprise users (i.e., the balance between model intelligence capabilities and inference pricing), certain versions of Kimi, Minimax, and Grok rank in the optimal quadrant. Meanwhile, models such as Deepseek and Qwen are also close to this high-value range.

Figure 17: Intelligence vs Price



Source: Artificial Analysis, CMBIGM
Note: 1) Price: USD per 1M Tokens; 2) Price is a blend of Input & Output token prices (3:1 ratio)

Video model: expanding application scenarios and acclerating monetization

With the development of multimodal large models, AI creative generation applications (video/image/speech) for professional/enterprise users—especially AI video applications—have achieved rapid scenario implementation and commercial development. We remain optimistic about the long-term global market size for AI creative applications. We estimate that the global creative application market size will reach US$54.6bn in 2027, with AI creative application penetration expected to reach 11%, corresponding to a global AI creative tool market size of US$5.8bn.

The global video large model industry is developing rapidly. Chinese vendors have achieved leading performance and cost advantages in the video model field based on continuous technological exploration and rich video data. According to Artificial Intelligence evaluations, Kuaishou Keling, Google Veo 3, and Lightricks LTX-2 Pro rank top three in performance, and Kuaishou Keling is superior to the other two large models in terms of API call price. Other domestic video model vendors such as SenseTime, Alibaba, and ByteDance also hold relatively leading positions in the industry and have advantages in model call costs.

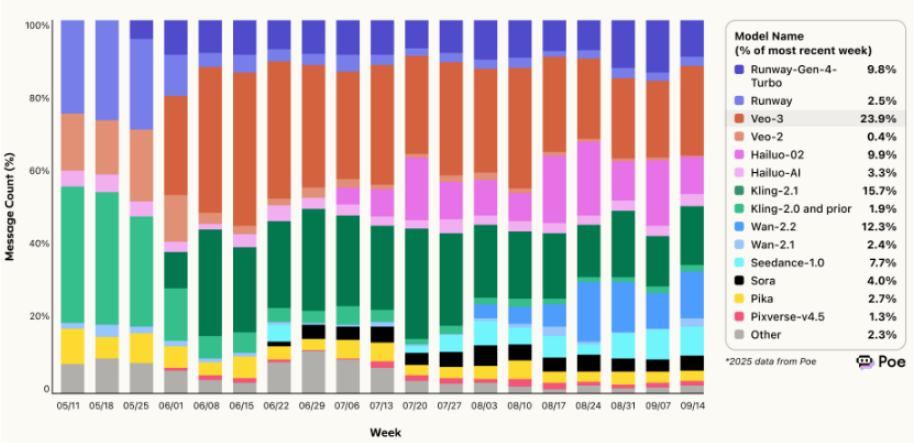
Figure 18: Leading video large models: comparison of scores and API prices

Company	Model	Launch Date	Text-to-Video ELO Score	Resolution	API Call Price (USD/second)
Kuaishou	Kling 2.5 Turbo Standard	Sep-25	1,232	720p	0.04
Google	Google Veo 3 / 3.1	Jul-25	1,227	720p	0.20
Lightricks	LTX-2 Pro	Oct-25	1,198	1080p	0.06
MiniMax	MiniMax Hailuo 2.3	Oct-25	1,194	768p	0.05
Vidu	Vidu Q2 Turbo	Oct-25	1,185	720p	0.02
Alibaba	Wan 2.5	Sep-25	1,181	720p	0.09
OpenAI	Sora 2	Sep-25	1,179	720p	0.10
PixVerse	PixVerse v5	Aug-25	1,179	1080p	0.06
ByteDance	Seedance 1.0 Lite	Jun-25	1,169	720p	0.03

Source: Artificial Intelligence, CMBIGM

According to POE, an AI application and model monitoring website, the usage of Google's Veo 3 video model has grown rapidly since its launch, with its market share approaching 24% by early September. However, domestic video model vendors have also maintained strong competitiveness. The combined market share of video models from domestic vendors (including Kuaishou, Minimax, Alibaba, and ByteDance) has reached approximately 53%. Among them, Kuaishou's Kling remains the leader with a 16% market share.

Figure 19: Video models: messages sent to models



Source: POE, CMBIGM

We remain optimistic about the long-term global market space for AI creative applications. We estimate that the global creative application market size will reach US$54.6bn in 2027, with AI creative application penetration expected to reach 11%, corresponding to a global AI creative tool market size of US$5.8bn.

Figure 20: Creative AI application TAM

Creativity tools TAM (US$bn)	2024	2025E	2026E	2027E
Creativity tools TAM	**39.16**	**43.79**	**48.93**	**54.61**
YoY		11.8%	11.7%	11.6%
AI creativity tools TAM		**1.86**	**4.01**	**5.80**
AI Penetration rate		4.3%	8.2%	10.6%
Professional Creativity	**2024**	**2025E**	**2026E**	**2027E**
Global number of creative pros (mn)	68.0	71.4	75.0	78.7
Free-to-paid conversion rate %	85%	85%	85%	85%
Number of subscribers (mn)	57.8	60.7	63.7	66.9
Monthly ARPPU (US$)	44.0	45.0	46.0	47.0
Creativity Cloud TAM - Professional Creativity	**305.2**	**327.7**	**351.8**	**377.4**
AI Creativity Cloud TAM - Pro Creativity		**13.1**	**26.4**	**37.7**
AI Penetration rate		4%	8%	10%
Hobbyist Creativity	**2024**	**2025E**	**2026E**	**2027E**
Global number of creative hobbyists (mn)	900.0	927.0	954.8	983.5
Free-to-paid conversion rate %	10%	11%	12%	13%
Number of subscribers (mn)	90.0	102.0	114.6	127.8
Monthly ARPPU (US$)	8.0	9.0	10.0	11.0
Creativity Cloud TAM - Hobbyist Creativity	**86.4**	**110.1**	**137.5**	**168.8**
AI Creativity Cloud TAM - Hobbyist		**5.5**	**13.7**	**20.3**
AI Penetration rate		5%	10%	12%

Source: Company data, International Labor Organization, CMBIGM estimates

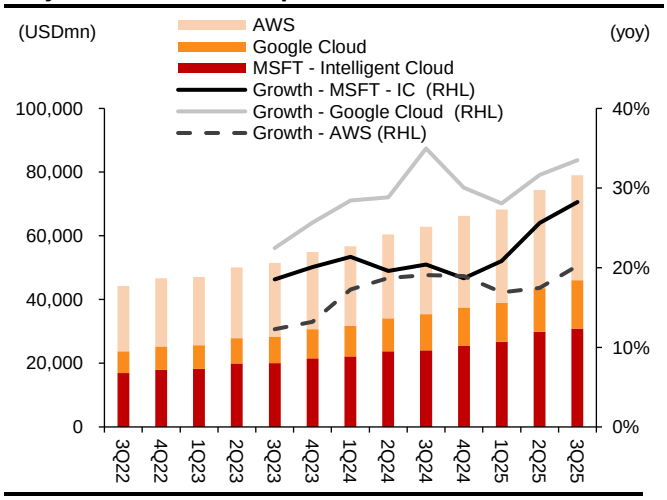
Industry fundamentals: capex guidance raised on strong demand; divergent profit margin impact

From the results of leading US internet companies, we observe the following key trends: 1) driven by robust demand and the gradual easing of supply constraints, infrastructure cloud vendors (Microsoft Intelligent Cloud/Google Cloud/Amazon AWS, hereinafter referred to as "cloud vendors") have achieved sequential acceleration in YoY revenue growth. Their combined YoY revenue growth rate rose to 25.7% in 3Q25 (2Q25: 23.1%; 3Q24: 22.2%). Additionally, fueled by strong demand, cloud vendors' capex surged sequentially to US$93.1bn (+71% YoY); 2) the impact of AI investments on profit margins has gradually diverged. While cloud-related capex has exerted some pressure on industry profit margins, the impact has been better than feared and has driven steady profit growth. However, for sectors with longer investment payback cycles (e.g., advertising), attention should be paid to investment pace and its impact on profit margins, in our view. We currently do not anticipate over-investment risks among cloud vendors and believe that the earnings growth of leading US stocks in 2026 should support their valuations. Nevertheless, we emphasize the need for more selective stock selection, recommending focus on companies with substantial AI monetization momentum and those where AI-related investments can efficiently drive revenue and profit growth.

Sustained strong demand and gradual easing of supply constraints driving accelerated cloud revenue growth

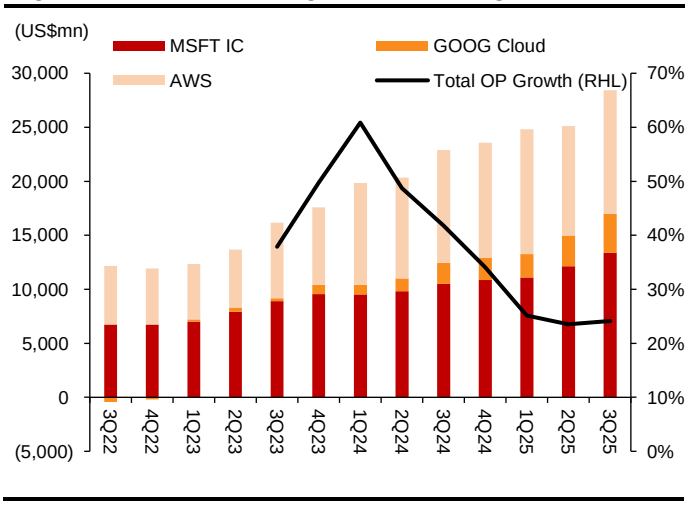
In 3Q25, Microsoft Intelligent Cloud/Google Cloud/Amazon AWS achieved YoY revenue growth of 28.2%/33.5%/20.2% (2Q25: 25.6%/31.7%/17.5%), and we expect this acceleration trend to continue into 4Q25. Demand for cloud services remains robust, while supply constraints remain the primary bottleneck to further revenue growth—easing of these constraints could support continued acceleration, in our view. On demand side: in 3Q25, Microsoft disclosed that its total commercial remaining performance obligations (RPO) increased to US$392bn (+51% YoY); Google Cloud's backlog grew 46% QoQ and 82% YoY to US$155bn. On supply side, Amazon noted that power capacity remains the key constraint to meeting incremental customer demand. The commissioning of additional power support will enable fulfillment of more demand, in our view. Amazon has added more than 3.8 gigawatts of power in the past 12 months, and expects to add at least another one gigawatt of power in 4Q25, and to double overall capacity by the end of 2027.

Figure 21: US: cloud segment revenue growth of major cloud services providers



Source: Company data, CMBIGM

Figure 22: US: cloud segment OP and growth

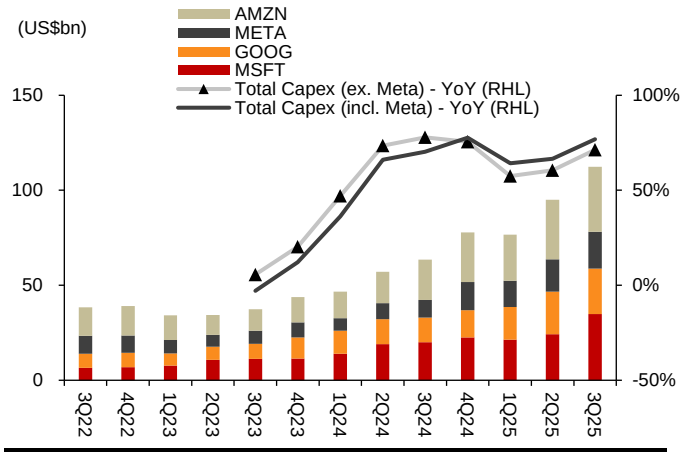


Source: Company data, CMBIGM

Cloud capex: further expansion to meet demand, but likely no near-term over-investment risks

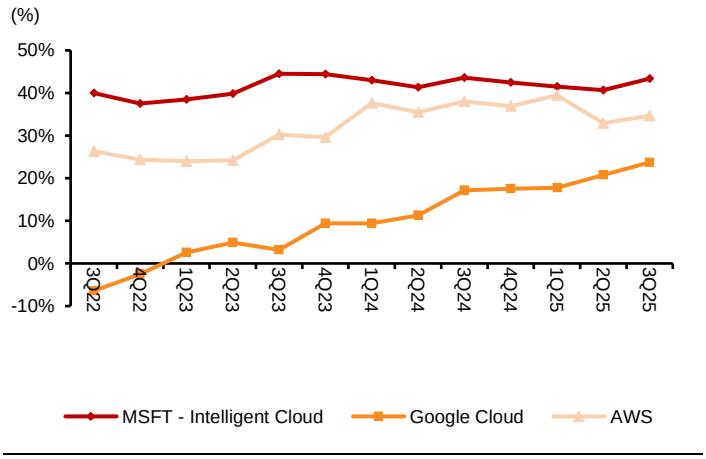
In 3Q25, the combined capex (company-level, including finance leases) of Microsoft, Google, Amazon, and Meta reached US$112.4bn (2Q25: US$95.0bn), representing a YoY growth of 77% (2Q25: 67%; 3Q24: 70%). We believe near-term over-investment risks in AI remain limited for cloud vendors, primarily due to the following factors: 1) investments are still focused on fulfilling relatively short-term confirmed demand. For instance, Microsoft disclosed that the weighted average duration of its RPO in 1QFY26 remained stable at approximately 2 years. Additionally, nearly 50% of capex is allocated to short-term asset investments (i.e., CPUs and GPUs) to meet incremental demand; 2) capex allocation remains rational (power infrastructure, chips, data centers). Even if signs of over-investment emerge in the future, vendors possess the flexibility to repurpose existing capex capacity for internal cost optimization initiatives and secondary monetization in other business areas, in our view.

Figure 23: US: Capex trend of major tech players



Source: Company data, CMBIGM

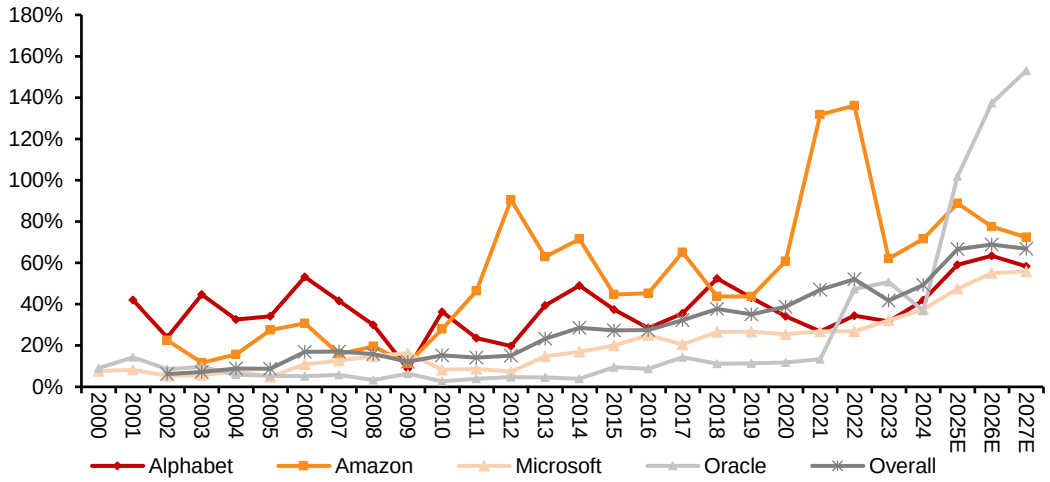
Figure 24: US cloud services providers: OPM of cloud business



Source: Company data, CMBIGM

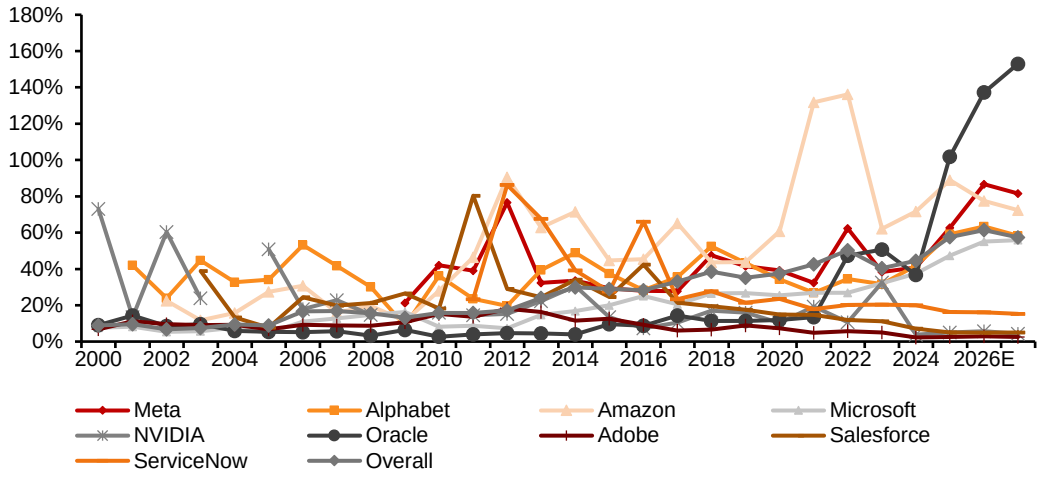
Driven by surging AI computing power demand, leading US cloud vendors (GOOG/AMZN/MSFT/ORCL) are expected to record all-time high capex in 2025. Total capex for 2025 is projected to reach approximately US$298.1bn based on Bloomberg consensus estimates, accounting for 67% of total OCF (compared to US$1.5bn in 2001, representing 10% of OCF). Between 2001 and 2025, capex is expected to achieve a CAGR of 25%, while OCF is anticipated to grow at a CAGR of 15% over the same period. By company, Microsoft/Google/Amazon maintain robust cash flow generation capabilities, with 2025 capex/OCF ratios of 47%/59%/89% respectively, indicating their cash flow can adequately support capex needs. In contrast, Oracle's capex plans significantly exceed its operating cash flow. According to Bloomberg consensus estimates, Oracle's FY25/FY26/FY27E capex/OCF ratios are projected to reach 102%/137%/153%.

Figure 25: Leading US cloud vendors: Capex/OCF



Source: Bloomberg, CMBIGM

Figure 26: Leading US tech companies: Capex/OCF



Source: Bloomberg, CMBIGM

AI applications: driving core business growth, exploring new monetization avenues, and reducing costs & enhancing efficiency

Reviewing the AI monetization and application progress of leading companies, we observe that AI continues to drive core business growth while creating new revenue opportunities. Meanwhile, internal AI applications have continuously delivered cost reduction and efficiency improvements, which are likely to support long-term margin expansion and profit growth.

On driving core business growth and exploring new monetization methods, we have observed that: 1) In terms of absolute incremental revenue, besides cloud business, AI has significantly empowered advertising business, but the overall investment return cycle of advertising business is slightly longer than that of AI cloud. This has led to short-term margin pressure and slower profit growth for Meta after it significantly increased capex and personnel expenses; 2) The commercialization of enterprise AI applications lags behind AI cloud and advertising, but due to the asset-light model of enterprise SaaS vendors (with limited capex input) and their active use of AI applications to improve operational efficiency, SaaS vendors can still maintain margin improvement and robust profit growth.

In the long term, we believe the AI growth narrative is still deepening. From breakthroughs in chip computing power to the in-depth implementation of enterprise-level AI in vertical industries such as government affairs, finance, and e-commerce, the technological boundaries and commercial scenarios of AI are continuously expanding. Driven by both AI technology iteration and industry penetration, the growth momentum of tech companies is expected to be further strengthened. In the short term, with AI monetization still progressing rapidly but overall industry valuations possibly reflecting market sentiment optimistically, profit growth rate may become a more important driver of stock price growth in 2026, in our view.

Figure 27: AI business progress of major US internet and cloud computing vendors

Company	AI Progress
Microsoft	1） **Sustained growth in AI cloud demand drives robust cloud revenue growth:** Azure and other cloud services revenue grew 40% YoY in 1QFY26; Azure AI Foundry has provided over 11,000 models, serving 80,000 customers (covering 80% of Fortune 500 companies); 2） **Copilot-related monetization drives revenue growth:** In Microsoft's Productivity and Business Processes segment in 1QFY26, M365 commercial/consumer cloud revenue grew 17%/26% YoY (4QFY25: 18%/20%), supported by 6%/7% YoY growth in M365 commercial paid seats/subscribers and rising ARPU.
Amazon	1) **AI drives sequential acceleration in cloud revenue growth:** AWS revenue growth accelerated to 20.2% YoY (2Q25: 17.5%; 3Q24: 19.1%); 2) **Trainium:** Trainium2 is now a multi-billion-dollar revenue business, growing 150% QoQ; Trainium3 is expected to be 40% more cost-effective than Trainium2, with a preview version to be launched by end-2025 and full deployment in early 2026; 3) **Rufus:** AI shopping assistant with 250mn active users in 2025, monthly users grew 140% YoY in 3Q25; customers using Rufus during shopping are 60% more likely to complete purchases; 4) **Empowering sellers:** Over 1.3mn sellers use Amazon's generative AI features to publish high-quality product information faster, leading to better customer acquisition and driving the third-party seller sales share up 200 bps YoY to 62% in 3Q25.
Alphabet	1) **AI Overviews/AI Mode:** AI Overviews and AI Mode drove paid click growth from 3% YoY in 1H25 to 7% YoY in 3Q25. AI Mode's DAU exceeded 75mn in 3Q25, with usage growing QoQ weekly since launch and query volume doubling QoQ; 2) **AI Max and Search:** Globally launched in September, AI Max and Search generated over billions of new searches in 3Q25, becoming the fastest-growing AI search advertising product; 3) **Gemini App:** Consumer-side Gemini App MAU exceeded 650mn, with inquiries tripling QoQ in 3Q25.

Meta	1)	**Increasing ad inventory:** AI content recommendation system drove 5%/10% YoY growth in user time spent on Facebook/Threads in 3Q25, enriching platform ad inventory;
	2)	**Improving ad conversion efficiency:** Meta continuously optimized ad model Andromeda, driving a 14% improvement in Facebook ad quality;
	3)	**Reducing ad delivery costs:** End-to-end AI automated ad solutions have annualized revenue exceeding US$60bn, lowering ad delivery thresholds and costs while improving efficiency. Looking ahead, the company will continue to use AI to optimize recommendation systems, content understanding capabilities, and marketing effectiveness; management expects AI to drive sustained strong revenue growth in FY26.
ServiceNow	1)	The company targets AI product ACV exceeding US$500mn/US$1bn by end-FY25/FY26, a significant increase from US$250mn ACV in 1Q25;
	2)	Introduced pay-as-you-go pricing model with positive customer feedback; AI agent usage has grown over 55x since late May 2025;
	3)	Launched AI Control Tower to help enterprises manage AI workflows; product orders grew over 3x QoQ in 3Q25.
Apple	1)	**Driving hardware revenue growth:** Mac revenue reached US$8.7bn (+13% YoY) in 4QFY25, a September-quarter record, supported by the proactive development of M5 chip (each GPU core integrates a neural accelerator, AI performance 3.5x that of M4) to enable efficient edge AI task execution;
	2)	**Driving services business to a record high:** Services revenue hit US$28.8bn (+15% YoY) in 4QFY25, exceeding US$100bn for the first time in FY25 (+14% YoY), mainly due to the proactive launch of Apple Intelligence features this quarter to improve user interaction efficiency and service stickiness;
	3)	**Consolidating AI infrastructure and ecosystem foundation:** Proactively put Houston AI server factory into production to provide computing power support for PCC private cloud and ensure AI function privacy and security; increased AI R&D and CapEx investment, planning to launch personalized Siri in FY26 to strengthen long-term competitiveness of hardware-service synergy.
Tesla	1)	**Driving software service revenue growth:** Service business revenue reached US$3.48bn (+24.6% YoY) in 3Q25, supported by a) AI's new complex environment reasoning capability in FSD V14 to improve subscription penetration; b) Robotaxi driving over 250,000 miles without safety officers in Austin, AI optimizing operational efficiency, with plans to expand to 8-10 urban areas by year-end;
	2)	**Driving energy business growth:** Energy business revenue hit US$3.42bn (+44% YoY) in 3Q25, with record energy storage deployment of 12.5GWh, supported by AI boom-driven data center energy storage demand and Megapack volume growth; AI also optimizes energy storage scheduling and deployment processes to support Megapack 4 R&D;
	3)	Supporting vehicle delivery and capacity expansion: Delivered 497,000 vehicles (+7.4% YoY) in 3Q25, planning to achieve 3mn annualized capacities within 24 months; AI optimizes vehicle production processes and supply chain management, and empowers Cybercab R&D;
	4)	Consolidating foundation for future core businesses: Self-developed AI5 chip performance is 40x that of AI4, supporting computing power needs for high-level autonomous driving and robotics.
Netflix	1)	**Driving ad revenue growth:** Ad revenue hit a record quarter in 3Q25, expected to double YoY in 2025, supported by a) AI-enhanced ad tech stack to optimize ad formats and delivery measurement capabilities; b) upcoming AI-powered interactive ads, with plans to launch ML-based optimization and precision targeting in 2027 to improve ad monetization efficiency;
	2)	**Improving content production efficiency:** AI serves as a creative tool to help creators develop content more efficiently and innovatively;
	3)	**Enhancing user viewing and retention:** Total viewing time growth accelerated in 3Q25 with a stable subscriber base, supported by AI-driven recommendation engine to accurately push high-quality content and AI-optimized product experience (e.g., personalized content recommendation) to improve user engagement and long-term retention willingness.
Booking	1)	**Driving ad and other revenue growth:** Grew 14.5% YoY in 3Q25, partly supported by a) AI-optimized precision marketing algorithms to improve ad recommendation efficiency; b) AI-accelerated video content production to expand marketing scenarios and ad inventory;
	2)	**Improving user conversion and repurchase efficiency:** Higher conversion rate and lower cancellation rate, supported by AI-driven search tools to optimize booking paths and personalized recommendations to enhance user stickiness.
Cloudflare		Drove 31% YoY sales growth to US$562mn in 3Q25, exceeding market expectations, supported by AI tool and AI security feature upgrades; currently, 80% of AI-related tech companies use its cloud computing tools, with new large AI enterprise contracts added this quarter.
Palantir	1)	**AI empowers core business:** Proactively integrated AIP into Army Vantage platform and obtained army-wide integration instructions; AI Hivemind supports complex government tasks to deepen government business; edge ontology technology enables customers to develop mobile AI applications at low cost, expanding AIP application scenarios;
	2)	**Supporting customer growth:** AIP helps enterprise customers with AI transformation to lower adoption thresholds, driving customer count to 911; AI FDE agent enables autonomous task execution and closed-loop error correction, helping customers compress legacy data warehouse migration cycle from 2 years to 5 days.

Uber	1)	**AI applications:** Uber AI provides multilingual tasks for 9.4mn drivers/couriers to improve their income; generative AI is embedded into the entire platform process to enhance efficiency, optimize operations, provide personalized user experience, and support cross-platform user matching;
	2)	**Autonomous driving:** Cooperated with NVIDIA to develop Hyperion (L4 autonomous driving reference architecture); partnered with Stellantis to adopt NVIDIA technology for an initial 5,000 vehicles with plans for significant expansion; operates with Waymo in Austin, Atlanta, and Phoenix, with the market growth rate of Waymo autonomous driving deployment twice that of other US regions.
Fortinet	1)	**Launched Secure** AI Data Center Solution in Q3, designed for AI workloads, achieving high-throughput and low-latency protection based on FortiASIC chips, and has been implemented in AI infrastructure projects of top 150 Fortune e-commerce customers;
	2)	**AI products directly drive revenue growth**: AI-driven SecOps segment billings grew 33% YoY in this quarter, far exceeding overall growth, and now account for 11% of total billings;
	3)	**Consolidating product advantages:** AI technology optimizes threat detection accuracy and operational efficiency of core products such as firewalls and SASE, driving performance improvement of FortiGate series products.
Applovin	1)	A**d model optimization drives rapid revenue growth:** Total revenue grew 68% YoY to US$1.405bn in 3Q25, mainly supported by continuous ad model optimization to further improve ad conversion efficiency;
	2)	**Launched self-service ad platform:** Launched self-service ad platform on October 1, effectively screening low-quality ad accounts to significantly improve platform ad delivery efficiency and quality; ad budget on the self-service platform has maintained >50% QoQ weekly growth since launch.
Unity		**Vector AI drives robust ad business growth:** Grow business revenue grew 6% YoY/11% QoQ in 3Q25, mainly supported by Vector AI. Driven by Vector AI, ad effectiveness across different customer sizes, geographic locations, and industries has been significantly improved.
Datadog	**1)**	**AI empowers core business:** Customers tend to use a unified platform to manage AI and non-AI businesses; Datadog's integration capability (supporting over 1,000 integrations) has become a core competitiveness, with over 5,000 customers sending AI data to Datadog via integrations;
	2)	**AI incremental revenue contribution:** AI-native customers contributed 12% of Q3 total revenue (higher than 11% in 2Q25 and 6% in 3Q24); number of AI-native customers exceeded 500, including 15 with annual spending over US$1mn and 100 with annual spending over US$100,000; AI products (e.g., GPU monitoring) are expected to bring future revenue opportunities.
Nebius	1)	**AI drives core business growth and brings large contract contributions:** Strong customer demand for next-generation NVIDIA Blackwell chips drives long-term capacity bookings (e.g., Meta's US$3bn 5-year contract and Microsoft's US$17.4-19.4bn contract, with first batch capacity delivered in Q3 and full revenue generation in 2026);
	2)	**Promoting customer structure diversification:** AI-native customers such as Cursor (AI code editor), Black Forest Labs (generative AI model), and Shopify (software vendor) drive revenue growth; enterprise customer expansion: vertical industries such as healthcare, life sciences, media and entertainment contribute new demand.
Coreweave		**AI empowers core business and brings significant revenue contribution:** Strong AI demand drove 134% YoY revenue growth to US$1.4bn in 3Q25, with RPO reaching US$50bn (the fastest in cloud service history); signed large-scale computing contracts with Meta, OpenAI, etc., with 9 out of top 10 existing customers signing multiple contracts. Number of customers with annual spending over US$100mn grew 3x YoY; single customer's share of revenue backlog dropped to ~35% (85% at the start of the year), with over 60% of backlog from investment-grade customers.
Sea	1)	**AI comprehensively drives three core businesses:** In e-commerce, Shopee improves conversion and fulfillment efficiency through intelligent search and seller tools; number of sellers using AI ad tools grew over 25% YoY, with average ad spending up over 40%; Garena optimizes game creation and experience with AI; SeaMoney strengthens risk control and product recommendation with AI, maintaining a low default rate despite 70% loan scale growth;
	2)	**AI incremental revenue contribution:** AI-optimized ad matching improved CPM by 30-50%, driving significant ad monetization growth; Shopee ad revenue grew over 70% YoY, contributing ~20-25% of the company's overall revenue growth and becoming a key engine for revenue growth; buyer purchase frequency grew 12% YoY, MAU buyers up 15%, directly driving GMV growth.
Shopify	1)	**AI empowers core business:** Sidekick intelligent assistant empowers merchants; 750,000 new stores used Sidekick for the first time in Q3, with cumulative conversations nearly 100mn (8mn in October alone) to support merchants' core operations; Shopify has millions of merchants and billions of transaction data, providing unique advantages for AI model training. Consumer research shows 64% of consumers may use AI to assist shopping during BFCM;
	2)	**AI drives channel traffic and order growth:** AI-driven traffic grew 7x since January 2025, and orders generated by AI search increased 11x. Cooperated with OpenAI etc. to "create more sales scenarios for merchants", with revenue directly tied to merchant success.

Source: Company data, CMBIGM

At the corporate operational level, we observe that AI has become an effective tool for internal efficiency improvement. Google's sales team achieved over 10% productivity growth using Gemini; AI generates nearly half of the code; and customer service-side Gemini handles over 40mn customer conversations. Palantir's AI FDE agent compressed customer data warehouse migration cycle from 2 years to 5 days, achieving disruptive breakthroughs in operational efficiency. Uber uses AI to achieve precise matching between multilingual drivers and users, and generative AI embedded in the entire platform process drives application efficiency iteration. Internal AI efficiency improvement is more advanced and widespread in large enterprises, showing a trend of continuous expansion and acceleration.

Figure 28: Internal AI efficiency improvement of major US Internet and cloud computing vendors

Company	Internal AI Efficiency Improvement
Amazon	AWS's Transform agent helped customers save 700,000 hours of manual work; AI-optimized inventory layout in logistics shortened US inbound delivery time by nearly 4 days; AI-driven robots improved the safety and productivity of the fulfillment network.
Alphabet	Sales team achieved over 10% productivity growth with Gemini; AI generates nearly half of the code; customer service-side Gemini handles over 40mn customer conversations; YouTube also uses AI to optimize creators' workflows and recommendation systems.
Palantir	AI FDE agent enables autonomous task execution, compresses data warehouse migration cycle, and improves operation and maintenance efficiency.
Uber	AI helps 9.4mn drivers/couriers achieve multilingual precise matching to improve delivery efficiency; generative AI embedded in the entire platform process enhances application operation efficiency.
Fortinet	AI technology optimizes threat detection accuracy and operational efficiency of core products such as firewalls and SASE, drives performance improvement of FortiGate series products, and reduces operation and maintenance costs.
Datadog	AI-driven automation (e.g., BITS AI) reduces manual operation and maintenance costs and improves fault troubleshooting efficiency.
Sea	80% of customer inquiries are handled by AI, reducing customer service costs by 75%; AI ad tools improve ad monetization efficiency with significant effects on marketing cost control.
Shopify	Improved per capita output through "automation, tool improvement, and reflexive use of AI"; internal operating expense ratio dropped from 45% in 2023 to 37% in 3Q25.
ServiceNow	AI agent usage has grown over 55x since May 2025, improving enterprise AI workflow management efficiency and reducing enterprise AI operating costs.
Tesla	AI optimizes energy storage scheduling and deployment processes to support Megapack R&D and reduce energy business operating costs; optimizes vehicle production processes and supply chain management to improve production efficiency and control production costs.
Netflix	AI serves as a creative tool to help creators develop content more efficiently and reduce content production costs; AI-driven recommendation engine improves user retention and reduces customer acquisition costs.
Booking	AI-driven search tools optimize booking paths, improve user conversion and repurchase efficiency, and reduce customer acquisition and maintenance costs.
Cloudflare	AI tool and security feature upgrades attract 80% of AI-related tech companies to use its cloud computing tools, improving revenue efficiency and optimizing customer structure and cost-benefit ratio.
AppLovin	Continuous ad model optimization drives ad conversion efficiency improvement and reduces ad delivery costs; self-service ad platform improves ad delivery efficiency and reduces manual operating costs.
Unity	Vector AI drives ad business growth, improves ad effectiveness and efficiency across different customer sizes, geographic locations, and industries, and optimizes ad cost-benefit ratio.
Coreweave	AI-driven storage services reduce customer costs by 75% and achieve zero cross-regional data migration, significantly lowering data management costs.

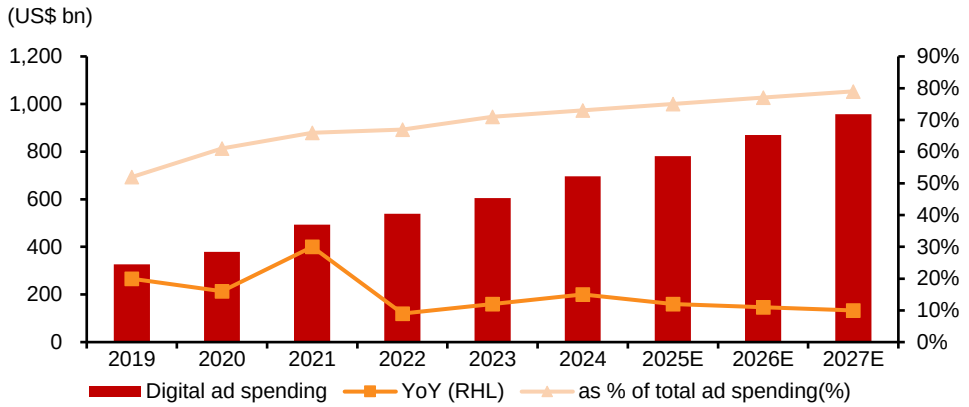
Source: Company data, CMBIGM

Sector outlook

Advertising: AI to drive ad revenue growth

According to eMarketer, global digital advertising market is expected to reach US$870bn in 2026, growing by 11% YoY and accounting for 77% of the global advertising market. We believe AI is poised to become the main driver of growth in the global digital advertising market, empowering advertising solutions across multiple dimensions: 1) AI optimizes content recommendation on social platforms, boosting user stickiness and time spent, thereby further expanding advertising inventory; 2) AI enhances ad targeting capabilities, improving digital ad conversion rates and eCPM; 3) AI-generated advertising creatives lower the threshold for ad placement, increase ad ROI, and attract incremental advertising budgets.

Figure 29: Global digital ad spending



Source: eMarketer, CMBIGM

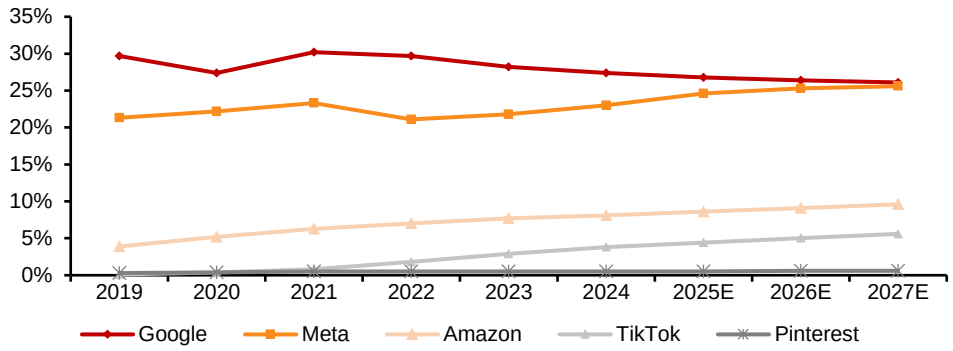
Figure 30: US ad platforms: AI empowers advertising business

Company	AI applications in ads
Meta	1) **Expanding advertising inventory:** In 3Q25, the AI-powered content recommendation system drove a 5% YoY increase in user time spent on Facebook and a 10% YoY rise on Threads, thereby enriching the platforms' advertising inventory. 2) **Enhancing ad conversion effectiveness:** Meta has continuously optimized its ad model Andromeda, which has boosted the quality of Facebook ads by 14% . 3) **Reducing ad delivery costs:** The annualized revenue of its end-to-end AI automated advertising solutions has exceeded US$60bn, lowering the threshold and costs of ad placement while improving ad efficiency. Looking ahead, the company will continue to leverage AI to refine its recommendation systems, content understanding capabilities, and marketing performance.
Google	1) **AI Overviews/AI Mode:** AI Overviews and AI Mode have driven the growth rate of paid clicks up from 3% YoY in 1H25 to 7% YoY in 3Q25. In 3Q25, DAUs of AI Mode exceeded 75mn, with its usage maintaining week-on-week growth. 2) **AI Max for Search:** Launched globally in September, AI Max for Search generated over billions of new search queries in 3Q25 alone, making it the fastest-growing AI-powered search advertising product.
Pinterest	1) **AI-Optimized Search to Enhance User Experience and Conversion Efficiency:** From the start of the year to 2Q25, the company's AI-driven search optimizations boosted search success rates by 230bps, helping users better find the content and products they need. 2) **AI-Powered Automated Ad Delivery and Bidding:** The company launched its Performance+ automated ad delivery tool in 2025, lowering the barrier to ad placement. Advertisers using this tool saw an average 12% increase in their budgets, driving rapid budget growth among small and medium-sized advertisers.
Snap	1) **Leveraging Large Models to Boost DPA Conversion: T**he company has used large models to enhance DPA's understanding capabilities, driving a more than fourfold increase in the ad's conversion rate and a YoY growth of over 30% in shopping-related ad revenue in 3Q25. 2) **Partnering with Perplexity to Become an AI Application Traffic Entry Point:** In 2026, Perplexity will embed its AI search experience into Snap's chat interface, for which it will pay Snap a consideration of US$400mn.

Source: Company data, CMBIGM

In terms of competition, Meta and TikTok are likely to continue increasing their shares in the digital advertising market, mainly thanks to AI-optimized platform content recommendation systems and advertising solutions. In contrast, Google's market share in digital advertising may decline, primarily due to the challenges posed by AI chatbots to search traffic and the potential impact of Google's exploration in the AI search on short-term monetization. According to eMarketer data, in 2026, Google/Meta/TikTok will account for 26.4%/25.3%/5.0% of the digital advertising market respectively, representing a YoY change of -0.6/+1.6/+0.6ppts.

Figure 31: Global digital ad market: market share breakdown



Source: eMarketer, CMBIGM

Figure 32: Global advertising market

Total revenue (US$bn)	2019	2020	2021	2022	2023	2024	2025E	2026E
Global ad spend	622.5	618.4	752.1	799.9	858.1	954.8	1,036.8	1,129.6
YoY	8.0%	-0.7%	21.6%	6.4%	7.3%	11.3%	8.6%	9.0%
Total revenue (US$bn)	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025E**	**2026E**
Global digital ad spend	326.3	379.0	493.5	539.5	605.3	697.1	781.4	870.0
YoY	20.0%	16.2%	30.2%	9.3%	12.2%	15.2%	12.1%	11.3%
As % of global ad market (%)	52.4%	61.3%	65.6%	67.4%	70.5%	73.0%	75.4%	77.0%
Total revenue (US$bn)	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025E**	**2026E**
Google	96.8	103.9	149.0	160.4	170.7	191.1	209.7	229.4
Meta	69.7	84.2	114.9	113.6	132.0	160.6	191.9	220.1
Amazon	12.6	19.8	31.2	37.7	46.9	56.2	67.1	79.3
TikTok	0.3	1.4	3.9	9.9	17.8	26.4	34.5	43.2
Pinterest	1.1	1.7	2.6	2.8	3.1	3.7	4.3	5.0
Reddit	0.1	0.2	0.4	0.6	0.7	1.1	1.7	2.2
YoY (%)	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025E**	**2026E**
Google		7.3%	43.4%	7.6%	6.4%	12.0%	9.7%	9.4%
Meta		20.8%	36.5%	-1.1%	16.1%	21.7%	19.5%	14.7%
Amazon		56.5%	57.6%	21.1%	24.3%	19.8%	19.4%	18.1%
TikTok		314.7%	175.2%	154.9%	80.3%	48.2%	30.5%	25.4%
Pinterest		48.2%	52.7%	8.5%	9.3%	19.3%	16.4%	17.2%
Reddit		70.0%	147.1%	40.5%	20.3%	50.7%	60.7%	30.2%
Market share	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025E**	**2026E**
Google	29.7%	27.4%	30.2%	29.7%	28.2%	27.4%	26.8%	26.4%
Meta	21.3%	22.2%	23.3%	21.1%	21.8%	23.0%	24.6%	25.3%
Amazon	3.9%	5.2%	6.3%	7.0%	7.7%	8.1%	8.6%	9.1%
TikTok	0.1%	0.4%	0.8%	1.8%	2.9%	3.8%	4.4%	5.0%
Pinterest	0.3%	0.4%	0.5%	0.5%	0.5%	0.5%	0.5%	0.6%
Reddit	0.0%	0.0%	0.1%	0.1%	0.1%	0.2%	0.2%	0.3%

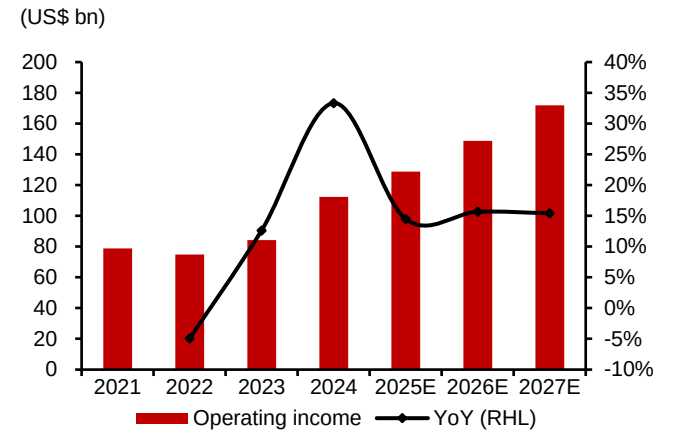
Source: eMarketer, CMBIGM

Alphabet: In the short term, AI empowerment on Google is significantly greater than the competitive pressure posed by AI vendors on Google. AI search products such as AI

Overviews and AI Mode have driven accelerated growth in the company's paid clicks, while demand for AI cloud services has boosted revenue growth and improved operating profit for Google Cloud. Driven by the accelerated growth of Google Cloud and core search business, we expect Alphabet to maintain robust profit growth in FY26 (16% YoY increase in operating profit). In addition, progress in large models, AI cloud infrastructure, and AI applications should further drive the company's valuation.

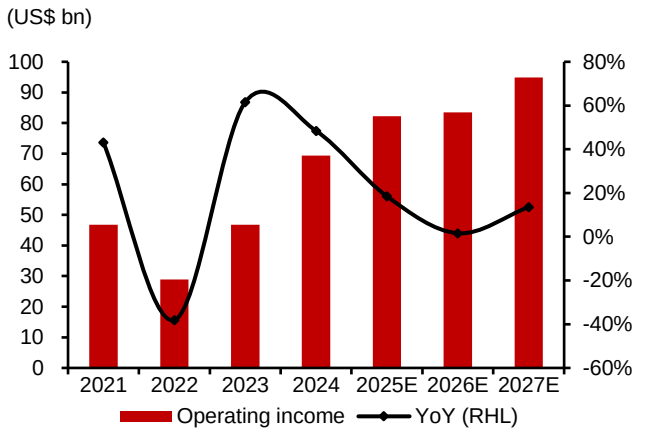
Meta: Benefiting from its leading position in the social ad industry, we are upbeat on the company's long-term gains from AI development, as AI will continue to drive rapid growth in its advertising revenue. However, management's aggressive expense guidance for FY26 (total expense growth will be significantly higher than that in 2025) has raised investor concerns about the 2026 profit growth outlook, especially since investments in long-term projects such as self-developed large models and MSL may affect the company's short-term profit margins. We expect the company's operating profit growth to slow to 2% YoY in FY26, mainly due to investments in AI infrastructure and talent. Affected by the slowdown in profit growth and increased earnings uncertainty, the company's short-term valuation has come under pressure.

Figure 33: Alphabet: operating income trend



Source: Company data, CMBIGM estimates

Figure 34: Meta: operating income trend

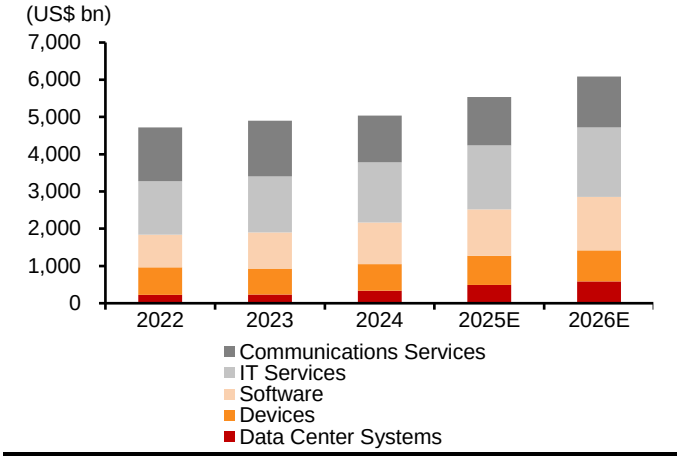


Source: Company data, CMBIGM estimates

Software: monetiztaion of AI applications is in line with expectation

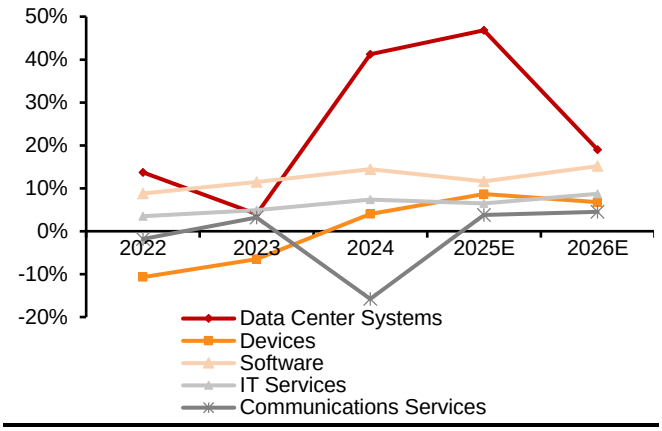
According to Gartner, global IT spending is expected to maintain rapid growth in 2026, up by 10% YoY to US$6.1tn. Among this, data centre and software spending will be the key growth drivers, forecast to rise by 19% YoY and 15% YoY respectively to US$582.4bn and US$1.43tn in 2026E. Since 2024, as leading cloud vendors and internet companies continue to ramp up investment in AI infrastructure, global data centre spending has maintained a CAGR of over 30%; global software spending has also sustained a CAGR of more than 10%, benefiting from the monetization of AI applications.

Figure 35: Global IT spending



Source: Gartner, CMBIGM

Figure 36: Global IT spending YoY



Source: Gartner, CMBIGM

Global AI spending is poised to maintain rapid growth in 2026. Gartner forecast that global total AI spending will surge by 37% YoY to US$2.02tn in 2026. Among all segments, AI IaaS, AI infrastructure software, AI large models, AI PCs, and AI application software will be the top 5 fastest-growing verticals, with projected YoY growth rates of 105%, 82%, 81%, 60%, and 57% respectively, and their respective market sizes are expected to reach US$37.5bn, US$229.8bn, US$25.8bn, US$144.4bn, and US$269.7bn in 2026.

Figure 37: Global AI spending breakdown

(US$bn)	2024	2025E	2026E	2026E YoY
AI Services	259	283	325	15%
AI Application Software	84	172	270	57%
AI Infrastructure Software	57	126	230	82%
GenAI Models	6	14	26	81%
AI-optimized Servers	140	268	330	23%
AI-optimized IaaS	7	18	38	105%
AI Processing Semiconductors	139	209	268	28%
AI PCs by ARM and x86	51	90	144	60%
GenAI Smartphones	245	298	393	32%
Total spending	**988**	**1,479**	**2,023**	**37%**

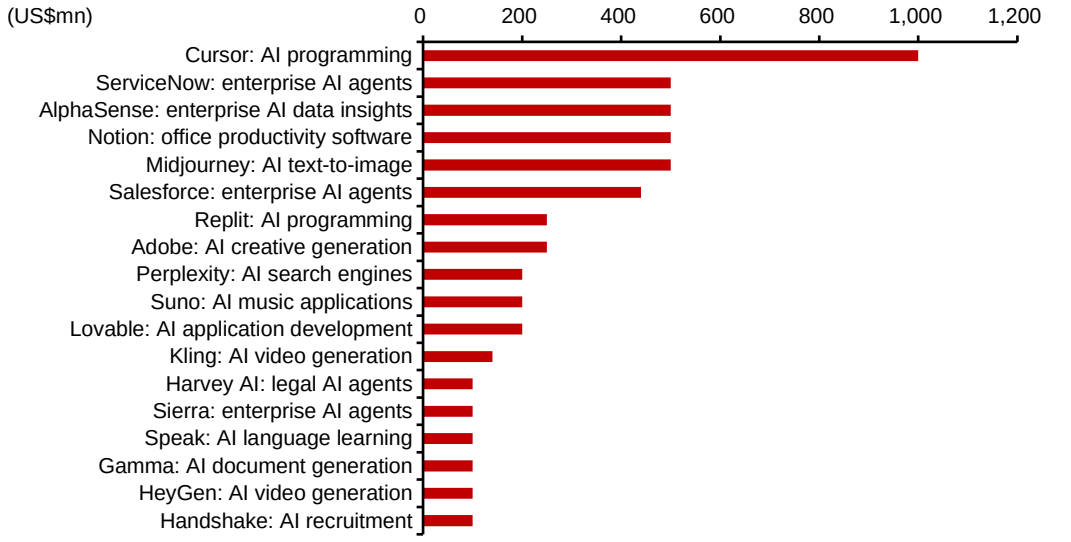
Source: Gartner, CMBIGM

The monetization of AI applications remains a key focus. In 2026, we recommend to focus on two major directions for AI application implementation and monetization:

1) Application scenarios where AI large models excel, such as programming, creative generation, and office efficiency. For programming, multiple large models have achieved high scores in programming benchmarks, and several leading internet companies and enterprises adopting AI programming have disclosed an AI code adoption rate of over 30%. AI programming applications saw rapid implementation in 2025, with Cursor's ARR exceeding US$1bn and GitHub Copilot's user count surpassing 20mn. For creative generation, AI applications for content such as images, videos, and music have achieved solid commercial progress. AI image tool Midjourney's ARR exceeded US$500mn; Kuaishou's AI video tool reached an ARR of over US$140mn; and AI music platform Suno's ARR surpassed US$200mn.

2) High-value application scenarios, such as enterprise AI agents and traditional vertical industries including education, finance, and legal services. The global enterprise IT budget is substantial (projected to reach US$6.1tn in 2026), and AI-driven efficiency optimization across enterprise workflows can unlock significant upselling and cross-selling potential. ServiceNow's enterprise AI agents and AI products are expected to hit an ARR of over US$500mn by the end of 2025.

Figure 38: AI Application software: ARR summary



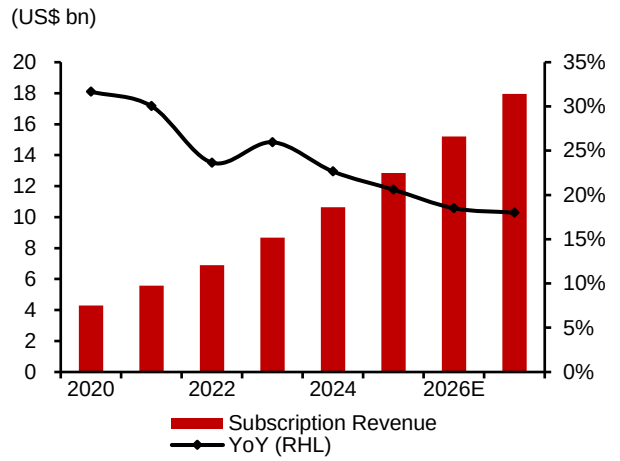
Source: ARR Club, Company data, CMBIGM

ServiceNow: Leveraging its enterprise customer base, first-mover advantage, and product innovation capabilities, we are optimistic that ServiceNow will continue to benefit from the development opportunities of generative AI, and its AI products will keep creating upselling and cross-selling opportunities. The company targets AI product ACV to exceed US$500mn/US$1bn by the end of FY25/FY26 (accounting for approximately 4%/6% of total revenue), representing a significant increase from the US$250mn ACV in 1Q25. Meanwhile, the company continues to use AI to improve internal operational efficiency, and we expect its non-GAAP operating margin to rise by 1ppt in FY26.

Salesforce: We are upbeat on Salesforce's AI monetization trend, which is primarily supported by its differentiated Agentforce solutions and Data Cloud integration solutions. In 3QFY26, Agentforce and Data 360 ARR grew by 114% YoY to c.US$1.4bn, within which Agentforce ARR increased by 330% YoY to US$500mn. Benefiting from growth opportunities in the AI agent business, management guided: 1) Total revenue to surpass

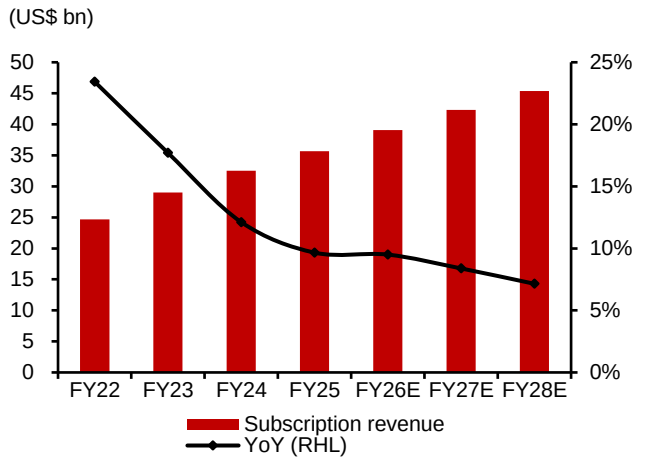
US$60bn by FY30E, with a CAGR of over 10% for organic business revenue from FY26 to FY30; 2) the “50 Rule” to be achieved by FY30E (YoY growth rate of subscription revenue + non-GAAP operating margin > 50%).

Figure 39: ServiceNow: subscription revenue



Source: Company data, CMBIGM estimates

Figure 40: Salesforce: subscription revenue



Source: Company data, CMBIGM estimates

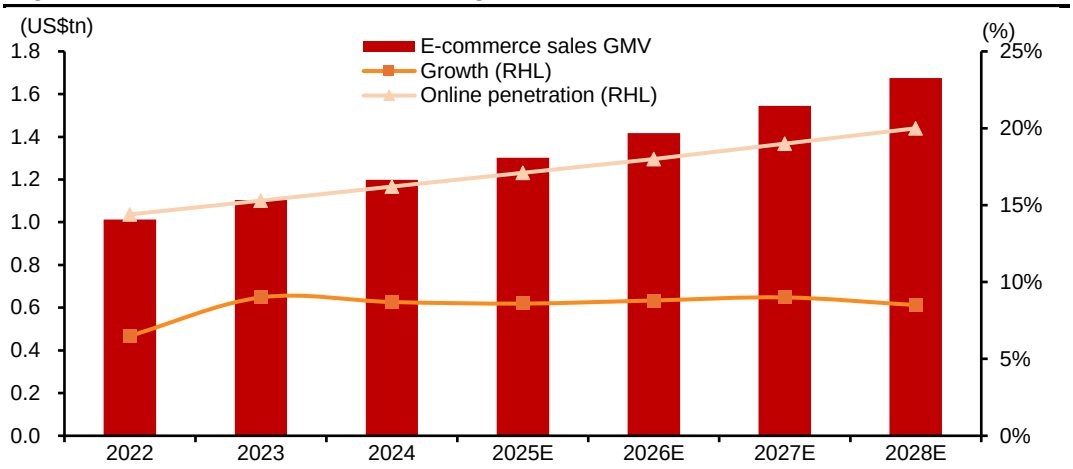
Datadog: Given the long-term trends of digital transformation and cloud migration, we are optimistic about Datadog’s long-term business development potential. The accelerated revenue growth of the overall cloud industry is expected to benefit the development of cloud infrastructure monitoring platforms. Moreover, Datadog has proven its ability to continuously expand its customer base and cross-sell software products covering the entire industry chain from the development end to the business end. Even during the investment phase, Datadog can maintain strong financial performance and meet the Rule of 40. As investments gradually yield returns and demand from AI-native customers continues to grow, we expect the company’s fundamentals to remain solid.

Palo Alto Network: We are upbeat that Palo Alto Networks will be one of the major beneficiaries of the generative AI era, as security demand is poised to grow steadily with the expansion of AI-related deployment. We forecast the company’s FY26 revenue/non-GAAP net profit to grow by 14%/18% YoY respectively, with a free cash flow margin of 38.4%. Its financial performance continues to meet the Rule of 50, which is expected to provide support for its valuation.

E-commerce: still room for further online penetration

According to eMarketer's forecast, US e-commerce sales are expected to reach US$1.3tn in 2025, representing a YoY growth of 8.6%. Future growth momentum will stem from two key drivers: 1) increased purchase frequency and average order value (AOV) among existing users; 2) higher penetration of underpenetrated categories such as fresh groceries and other daily necessities, which currently have relatively low online penetration rates. Historically, categories like fresh produce and daily essentials have faced constraints in online penetration due to factors such as fulfillment efficiency and consumer habits. However, with the evolution of fulfillment models and improved warehouse layout efficiency, the online adoption rate of daily necessities should gradually rise, in our view, thereby driving steady growth in overall e-commerce penetration across mature markets.

Figure 41: US online retail sales and growth, 2022-2028



Source: eMarketer, CMBIGM

Emerging markets, particularly Southeast Asia and Latin America, still offer significant room for e-commerce penetration and are poised to be core growth engines. We believe regions such as Southeast Asia (e.g., Indonesia) and Latin America (e.g., Mexico) will see sustained increases in e-commerce adoption, supported by rising internet penetration and further improvements in logistics infrastructure. The iterative development of diversified cross-border e-commerce models by Chinese e-commerce operators' overseas platforms such as Temu and AliExpress, coupled with the deepened supply chain investments by local players—including Shopee in Southeast Asia and MercadoLibre in Latin America (e.g., localized warehouse networks and payment tool adaptation)—could drive further user penetration in these regions.

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