

CRI Middleware Co., Ltd.

3698

Tokyo Stock Exchange Growth Market

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Summary

Rapid expansion of Gaming Business and Enterprise Business

1. Operates Gaming and Enterprise businesses under the CRIWARE brand

CRI Middleware Co., Ltd. <3698> (hereafter, also “the Company”) licenses software products, mainly under the CRIWARE and OPTPIX brands, and provides contract development and sound production services related to the sale of its product licenses. The Company has two business segments—the Gaming Business and the Enterprise Business. In the Gaming Business, it provides audio and video middleware and image optimization solutions for the smooth and efficient development of video games, as well as sound production services. The Enterprise Business is focused on areas other than gaming, particularly the mobility, embedded, and cloud solutions fields. It leverages audio and video-related technologies cultivated in the Gaming Business to provide audio and video middleware and solutions and conducts related contract development.

2. Strength is digital signal processing technology that compresses audio and video files while retaining quality

The Company has a number of technical and marketing strengths. In technology, the Company's strength lies in digital signal processing technology that can achieve compression ratios of 1/24 for audio and 1/1000 for video while maintaining high quality. The Company's software enables high-level processing, such as making audio sound clear and synchronizing it with video in real time. In marketing, the Company's strength is its ability to utilize these advanced technologies to satisfy market and customer needs based on a market-focused approach. Using this approach, the Gaming Business has supported more than 20 different gaming consoles and platforms, while subsidiary TWOFIVE Co., Ltd. provides one-stop services for voice actor casting and production. In the Enterprise Business, these technologies support the playback of low-load, high-quality audio and an app-based video generator for smartphone browsers.

3. Full-year forecast for significant increase in profit is still relatively conservative considering the performance of CRI Glassco

The Company's results for 1H FY9/25 were strong, with net sales of ¥1,855mn (up 23.8% year on year [YoY]) and operating profit of ¥387mn (up 108.8%). Key factors in this favorable performance included receiving a major order for audio recording services in audio production, the recording of new licensing revenues for karaoke and overseas live casinos in the embedded field, and faster-than-expected implementation of CRI Glassco for motorcycles. The Company's forecasts for FY9/25 are for significant increases in sales and profits, with net sales of ¥3,530mn (up 11.5% YoY), operating income of ¥550mn (up 49.3%). Full-year forecasts were revised upward due to favorable 1H performance; however, given the performance of CRI Glassco, the 2H forecast appears somewhat conservative.

Summary

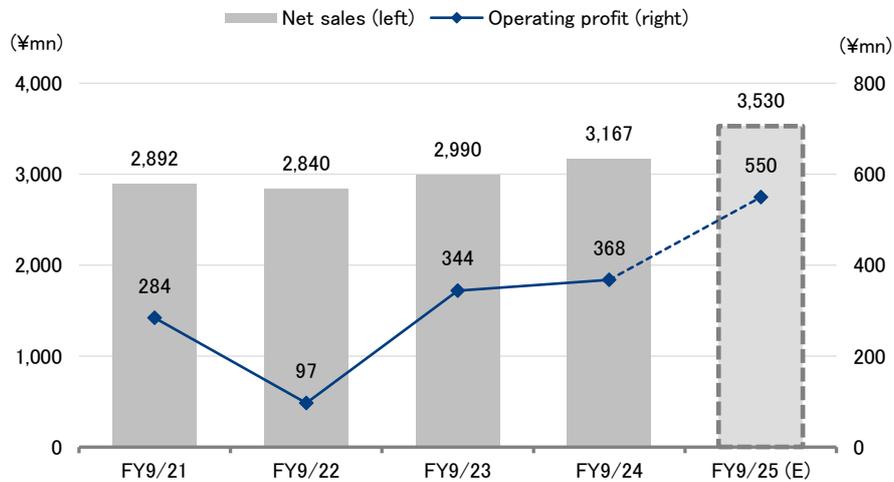
4. Aims to transform business to achieve net sales of ¥10.0bn in 5–10 years

The Company’s basic policy is to transform its current game-dependent business into a business structure with three pillars over the medium to long term: gaming, mobility, and TeleXus-related businesses. It also wants to become a ¥10.0bn company in 5–10 years while also significantly lifting profit margins, which have been declining recently. The growth strategy for the Gaming Business is to increase net sales from ¥1.7bn to ¥3.0bn over the next 5–10 years by focusing on alliances in Japan and stepping up expansion overseas. In the mobility field, the Company aims to grow sales from ¥0.3bn to ¥3.0bn in the same timeframe by launching new products for both Japanese and overseas automakers. In the TeleXus-related field, it aims to increase net sales to ¥3.0bn in 5–10 years by leveraging the advantages of its TeleXus technology, which enables simultaneous conversation among a large number of people and AI interpreting.

Key Points

- Developing licensing business under the CRIWARE brand; strengths in digital signal processing technology
- Aims to achieve net sales of ¥10.0bn over the medium to long term by restructuring and developing three core businesses
- Forecast for significant increase in profits for FY9/25, but still somewhat conservative given the performance of CRI Glassco

Results trends



Source: Prepared by FISCO from the Company’s financial results

Company profile

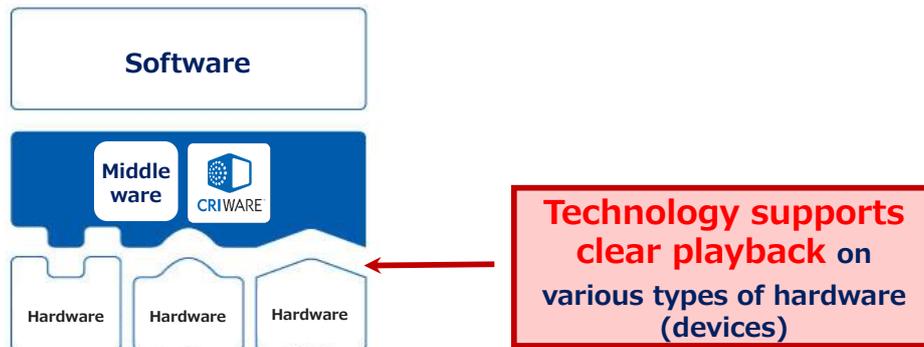
Provision of CRIWARE brand middleware

1. Company profile

The Company is engaged in the licensing of specialist audio and video middleware*, primarily under the CRIWARE and OPTPIX brands, and the provision of related technical support. The Company's strength lies in digital signal processing technology for audio and video. It operates a Gaming Business and an Enterprise Business. In the Gaming Business, it provides middleware and image optimization solutions and is involved in audio production through a subsidiary. It has a large share of the domestic gaming market, particularly in audio middleware. In the Enterprise Business, it leverages technology cultivated in the Gaming Business, and offers products focusing on mobility fields including in-vehicle systems, embedded for home appliances and IoT devices, and cloud solutions utilizing web video and image technologies. The Company was founded as a middleware developer in the gaming field, but subsequently expanded into the entertainment industry, including amusement equipment, and then into the enterprise industry, including mobility and embedded. It has also resumed expansion in overseas markets. The Company aims to transform its domestic game-dependent business structure over the medium to long term. Its goal is to become a ¥10.0bn company in 5–10 years with three pillars—gaming, mobility, and TeleXus-related businesses—as its core businesses.

* Middleware: The software layer that lies between (middle) the hardware or operating system (OS) and the application software. Middleware supports the smooth operation and development of applications by controlling hardware and OS characteristics. Middleware helps to improve software quality, reduce development man-hours, shorten development time, and lower development complexity while also making it easier to deploy applications on a range of different platforms.

Role of middleware



Source: The Company's financial results supplementary briefing materials

Significant expansion in business domain from home video game consoles

2. History

The Company's predecessor company is CSK Research Institute Corporation, a subsidiary of CSK Corporation (now SCSK Corporation <9719>) founded in 1983 as a software technology laboratory. In its early days, the Company conducted research into AI and other technologies, but its research in the audio and video field led to a deepening relationship with SEGA Enterprises, Ltd. (now SEGA Corporation), a CSK Group company at the time. As a result, it began developing basic software (middleware) and application software (games) for SEGA's home video game consoles. The Company later became a SEGA subsidiary, but SEGA decided in January 2001 to withdraw from the home video game hardware business. CSK Research Institute's middleware business therefore needed to start developing software for other home video game consoles (multiplatform strategy). This prompted CSK Research Institute to spin off its middleware business in August 2001, leading to the establishment of CRI Middleware. The Company's middleware is still used in many titles from SEGA, which retains 12.25% of the Company shares, but the Company has a high degree of management independence and a growing customer base in the gaming industry, including Square Enix Holdings Co., LTD. <9684> and Bandai Namco Entertainment Inc. Drawing on its technological capabilities from the gaming field, the Company has rapidly expanded its customer base in areas other than gaming, starting in 2011 with the launch of a sales presentation system for smart devices, and followed in 2017 by its move into the mobility field with audio middleware for embedded in-vehicle systems. The Company entered the US in 2006, but decided to exit the market as next-generation game consoles were launched and overseas game titles became larger in scale. However, in 2019, the Company decided to resume overseas expansion, starting with China, where the use of middleware was still a blue ocean. This is supporting the Company's steady growth overseas and it has just begun re-entering the US and European markets.

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Company profile

Company history

Year	Event
1983	CSK Corporation (now SCSK Corporation) establishes CSK Research Institute Corporation (CRI) in October to conduct R&D into AI, audio/video technology, CD-ROM media
1996	Releases first middleware (CRI ADX, CRI Sofdec, CRI Clipper, etc.) for Sega Saturn™ home video game console
2001	CRI Middleware Co., Ltd. incorporated as wholly owned subsidiary of CRI to develop and sell middleware Created as entity independent from CSK/Sega group to support middleware multiplatform strategy (market diversification) Released middleware for PlayStation®2, Nintendo GameCube® and Xbox® home video game consoles
2002	Opened office (R&D and sales base) in Minami-Aoyama, Minato-ku, Tokyo Launched middleware for game consoles (commercial use) and PCs (Windows)
2004	Becomes independent from parent company through buyout by directors and employees
2005	Head office relocated to Minami-Aoyama, Minato-ku, Tokyo; Japanese company name changed
2006	Established wholly owned consolidated subsidiary CRI Middleware, Inc. in California, US (currently consolidated subsidiary)
2009	Head office relocated to Shibuya, Shibuya-ku, Tokyo Released "i kyuseisyu" audio middleware for iPhone/iPod touch; moved into smartphone software business
2010	Launched CRI ADX7 audio middleware for embedded devices
2011	Released pharmaceutical sales presentation system for smart devices, developed with CSK, marking first move into non-game field Launched D-Amp Driver, "Karu-i-i-ne," and "Karu-e-e-zo" audio/video middleware for embedded microcomputers
2012	Added CRIWARE support for Unity game engine
2013	Added CRIWARE support for Cocos2d-x and Unreal Engine 4
2014	Listed on Tokyo Stock Exchange (TSE) Mothers Market
2017	Launched CRI ADX Automotive, audio middleware for embedded in-vehicle systems
2018	Acquired all shares in Web Technology Corporation, making it a wholly owned subsidiary
2019	Established consolidated subsidiary CRI Middleware China Co., Ltd. with 70% stake, in Shanghai, China (currently consolidated subsidiary) Acquired all shares in TWOFIVE Co., Ltd., making it a subsidiary (currently consolidated subsidiary)
2020	Acquired all shares in R-FORCE ENTERTAINMENT INC., making it subsidiary (currently excluded from scope of consolidation)
2021	Absorbed wholly owned subsidiary Web Technology Corporation through a merger Head office relocated to Sakuragaoka-cho, Shibuya-ku, Tokyo
2022	Listing transferred to TSE Growth Market Official release of CRI TeleXus, new communication system for virtual spaces such as the metaverse and online games
2023	R-FORCE ENTERTAINMENT INC. excluded from scope of consolidation following sale of all shares

Source: Prepared by FISCO from the Company's securities reports and other materials

Significant room for growth in Enterprise Business

3. Industry environment

In the gaming industry, the smartphone gaming boom has tailed off and demand is moving back to game consoles and PCs. Also, amid in slump in the popularity of major game titles in recent years due to a range of factors, small-scale indie titles have seen a resurgence. With its strengths in addressing multiple platforms, the Company naturally targets domestic game developers and major game titles, but as the number of titles using its middleware is more important to the Company than the scale of the games, it also targets indie games, and provides free products* with a view to cultivating links with indie developers. In areas other than gaming, it is seeing growth in the mobility field in particular. Audio functions are needed for multiple places in each vehicle, and the Company's middleware is superior in terms of balancing price and quality and of mitigating procurement risk by using a general-purpose microcontroller, mitigating procurement risk. This is one of the factors behind automakers shifting from voice ICs to the Company's middleware. In addition, the Company's new product, the in-vehicle graphic display solution CRI Glassco, has been fully launched, and there are strong expectations for its role in the mobility growth strategy.

* Support system for indie game developers; fees are charged only when sales or other performance indicators exceed a certain level.

Company profile

The Company's competitors in middleware are Audiokinetic, Inc. of Canada, which specializes in audio with its Wwise application, and RAD Game Tools, which is focused on video. Unity supplied by US company Unity Technologies (Unity Software Inc.) and Unreal Engine developed by Epic Games, another US company, are game engines that make it easier to create entire video games. In many cases, developers employ the Company's middleware to further improve the functionality of the game engines, enabling them to coexist with the Company. In addition, following its acquisition by Epic Games, RAD Game Tools appears to be focusing more on the development of titles for its parent company. CRI Middleware is currently reported to have the leading market share in Japan, but its temporary exit from overseas markets allowed Wwise to gain ground in Europe and the US. For this reason, the Company has a strategic goal of capturing share in the overseas game market, and is likely to drive growth by incorporating growing needs and wants in the Enterprise Business.

Business overview

Operator of middleware licensing business and contract development

1. Business description

The CRI Middleware Group consists of the Company and two subsidiaries: audio production company TWOFIVE and CRI Middleware China which manages operations in China. It is primarily engaged in the licensing of software products under the CRIWARE and other brands, related contract development, and sound production. The Group's operations can be viewed from several angles, as described below.

(1) Business segments

Operations are divided into two business segments—the Gaming Business and the Enterprise Business. In the Gaming Business, the Company and its two subsidiaries serve the gaming industry, providing audio and video middleware for smooth and efficient game development, image optimization solutions, and sound production. The Company's middleware is very well known among gamers, with the CRIWARE logo appearing on the packaging of many games and on the startup screens of smartphone games. The Enterprise Business leverages audio and video-related technologies cultivated in the Gaming Business to provide audio and video middleware and solutions for areas other than gaming. It also conducts related contract development. Specifically, the business is targeting three fields: mobility, embedded for home appliances and IoT devices, and cloud solutions that utilize web video and image technologies.

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Business overview

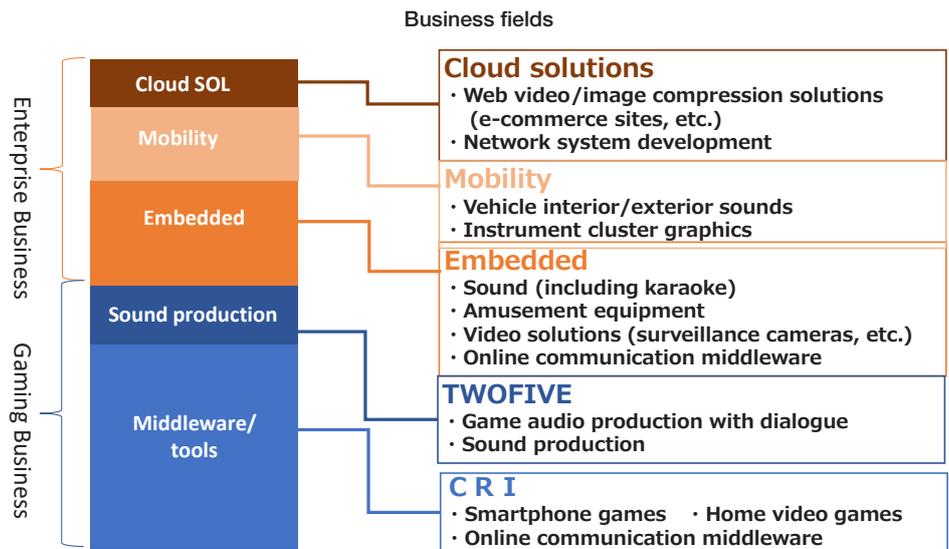
(2) Basic technologies developed for the gaming field

Over the years, the Company has independently conducted research and development into many types of digital signal processing technology, including audio and video, and repeatedly tested them with customers. This experience and expertise, as well as the trust built up with customers, has enhanced the Company's technical reputation and its corporate value, and consequently the CRIWARE brand. In audio, the Company has audio signal processing technology that employs digital filters to apply various effects to sound in real time, as well as audio codecs* compatible with multiple platforms thanks to its audio compression technology developed in house. It also has a number of other technologies in areas such as audio analysis and sound authoring. In video and graphics, the Company has video playback technology that adjusts the timing of rendering and decoding (decompression) processes to match the characteristics of different game consoles and devices, as well as video compression technology that performs real-time processing as an encoding (compression) library, making it more than a simple compression tool. Other technologies include video analytics and video streaming. The Company also develops network technologies, such as web API development, lookahead/delayed loading, and machine learning; application development technologies, such as web application development and UI/UX design and development; and embedded technologies, such as microcontroller control, OS/driver development, and power outage recovery.

* Technology or a program for compressing and restoring digital data such as audio and video

(3) Product services and solutions

The Company monetizes the above basic technologies by providing them to customers as product services and solutions. In product services, it utilizes its advanced audio and video technologies cultivated in games in the entertainment field for amusement equipment, karaoke, virtual characters, and VR/AR. Other applications include home appliances, PCs, and signage in the embedded field, in-vehicle displays, AVAS, and DMS in the mobility field, and e-commerce sites and online exhibitions in the cloud solutions field. In solutions, its technologies support the development of animation authoring tools for VR equipment and well-known game titles, character content for karaoke companies, sound middleware for automaker instrument clusters, image quality optimization systems for automakers, apparel video blogging systems, and online exhibition systems.



Source: The Company's financial results supplementary briefing materials

Support for various OS and devices, including audio and video

2. Products and services

In the Gaming Business, the Company's technology supports the development of high-quality games for various platforms and OS, including compatibility with more than 20 game consoles. Key products in the Gaming Business include the mainstay CRI ADX integrated sound middleware, CRI Sofdec high-definition, high-performance movie middleware, and CRI TeleXus online communication middleware. Subsidiary TWOFIVE also provides a full range of voice actor services, from casting and direction to recording, processing, editing, and databasing, meeting the needs of game developers that want to use well-known voice actors or create soundscapes that align with the image of their games. In the Enterprise Business, the Company supplies a one-chip microcontroller that can play back low-load, high-quality audio files, which addresses needs for clear voice playback, functional switching from buzzer sounds to voice guidance, reduced component numbers, and voice rearrangement in response to situational changes. Key products in the Enterprise Business include: CRI D-Amp Driver, a reduced circuit high-output sound middleware for the embedded field; CRI SOLIDAS, a full digital audio solution; CRI DietCoder and CRI TeleXus, high-compression transcoding systems; CRI ADX Automotive (CRI ADX-AT), a sound development solution for the mobility field; CRI Glassco, a graphics development solution; CRI LiveAct, a web video solution for the cloud solutions field; and OPTPIX SmartJPEG, an image compression solution.

Essential strengths in digital signal processing technology

3. Strengths

The Company has a number of technical and marketing strengths. In technology, the Company's strength lies in digital signal processing technology that can achieve compression ratios of 1/24 for audio (using audio codecs) and 1/1000 for video while maintaining high quality. Using its proprietary compression technology tools and methods, the Company is focused on delivering high-quality audio and video, aiming to make them sound clear and synchronizing them in real time, even when platform performance is limited (low-cost production). These technical capabilities have given The Company a competitive advantage in terms of price and quality, spurring the use of its middleware in a wide range of fields beyond games, including karaoke, mobility, and IoT devices. From a marketing perspective, the Company has a strength in that it uses these high-level technologies based on a market-focused approach to markets and customer needs.

Results trends

Results for FY9/25 are favorable. The end of 1H, the Company had largely achieved each profit level of the full-year forecast

1. 1H FY9/25 results

The Company's results for 1H FY9/25 were strong, with net sales of ¥1,855mn (up 23.8% YoY), operating profit of ¥387mn (up 108.8%), ordinary profit of ¥390mn (up 104.8%), and profit attributable to owners of parent of ¥271mn (up 78.2%). Compared to the initial forecast, the progress rate was 55.2% for net sales, 100.8% for operating profit, 99.0% for ordinary profit, and 86.9% for profit attributable to owners of parent, broadly achieving the full-year forecast for each profit level. The Company therefore revised the full-year earnings forecast upward (details below).

1H FY9/25 operating results

	1H FY9/24		1H FY9/25		Change %
	Results	vs. net sales	Results	vs. net sales	
Net sales	1,499	100.0%	1,855	100.0%	23.8%
Gross profit	817	54.5%	1,137	61.3%	39.2%
SG&A expenses	631	42.1%	750	40.4%	18.8%
Operating profit	185	12.4%	387	20.9%	108.8%
Ordinary profit	190	12.7%	390	21.1%	104.8%
Profit attributable to owners of parent	152	10.2%	271	14.6%	78.2%

Source: Prepared by FISCO from the Company's financial results

The Japanese economy showed weakness in certain areas due to factors such as the impacts trade policies in various countries; however, corporate earnings are on an improving trend, and business sentiment has maintained a favorable level with business conditions gradually recovering. In the business environment for the Company, telework became firmly established as a new work style after becoming popularized during the COVID-19 pandemic, while the use of online communication tools such as voice chat and online meeting tools also become normalized. Furthermore, in the mobility industry, the development of Software Defined Vehicles (SDV)* is expected to be an area where the Company can contribute technologies and knowledge of middleware it has accumulated in the gaming industry. Under these conditions, the Company conducted the development of online communication middleware, CRI TeleXus, set up an R&D system with an eye on businesses and markets that are expected to grow going forward, such as mobility, and focused its efforts on expanding the business foundation and generating Group synergies as its key initiatives. As a result, net sales and each profit level increased substantially YoY, with favorable performance particularly in the mobility field and embedded field of the Enterprise Business and the audio production field of the Game Business, which surpassed the initial forecast by a significant margin.

* A vehicle whose functions and performance can be upgraded even after sale by constantly updating the control software using an external two-way communication function.

Results trends

Significant profit increases in both the Gaming Business and Enterprise Business

2. Business segment results

Looking at results by segment, both businesses performed strongly, with segment profits showing substantial growth. In the Gaming Business, net sales were ¥948mn (up 20.8% YoY) and segment profit was ¥128mn (up 90.2%). In the Enterprise Business, net sales were ¥907mn (up 27.0%) and segment profit was ¥258mn (up 119.4%).

1H FY9/25 segment results

Net sales	1H FY9/24		1H FY9/25		Change %
	Results	vs. net sales	Results	vs. net sales	
Gaming Business	785	52.4%	948	51.1%	20.8%
Middleware/tools	641	42.8%	708	38.2%	10.5%
Overseas	66	4.4%	124	6.7%	88.1%
Audio production	144	9.6%	240	12.9%	66.8%
Enterprise Business	714	47.6%	907	48.9%	27.0%
Embedded	330	22.0%	434	23.4%	31.5%
Mobility	137	9.2%	314	17.0%	129.0%
Cloud solutions	246	16.4%	157	8.5%	-35.9%

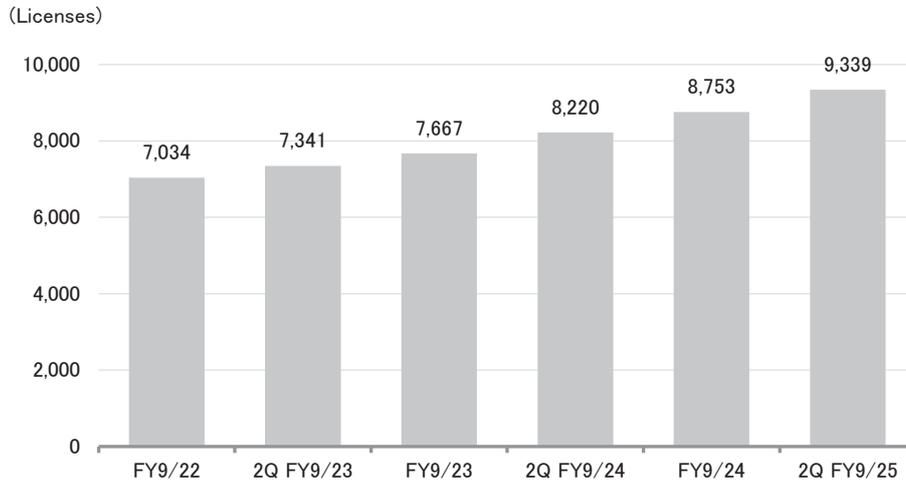
Segment profit	1H FY9/24		1H FY9/25		Change %
	Results	vs. net sales	Results	vs. net sales	
Gaming Business	67	8.6%	128	13.6%	90.2%
Enterprise Business	117	16.5%	258	28.5%	119.4%

Source: Prepared by FISCO from the Company's financial results supplementary briefing materials

In the Game Business, net sales of middleware/tools grew steadily, increasing 10.5% YoY. Domestic licensing revenue from products such as CRIWARE increased due to favorable performance in 2Q. For overseas customers, the Company secured new licensing revenue in its main market of China by adapting it for the launch of "HarmonyOS NEXT," the third OS by Huawei Technologies Co., Ltd. (Huawei). Going forward, CRIWARE will be adapted for three platforms, as HarmonyOS is added to iOS and Android. By a simple calculation, the licensing revenue for a single title is estimated to increase by a factor of 1.5. In addition, in the European and US markets, where the Company has been refocusing its efforts, it has acquired several new licensing revenues. Net sales of audio production increased sharply by 66.8% YoY. In audio production services at TWOFIVE, the main factor for the increase was the receipt of a major order for audio recording services again in 2Q, continuing from 1Q. In addition, the Company continued to conduct R&D investment in CRI TeleXus, for which it has high expectations. As a result of the above, the number of licenses in the Gaming Business reached 9,339 (up 13.6% from the previous fiscal year-end), and the adoption rate for smartphone games, for which Chinese companies have produced many titles, was 35% (up 4 percentage points [pp] from the previous fiscal year-end), both metrics increasing (while staying level YoY for home console games). In this way, net sales were driven by overseas licensing revenue and TWOFIVE's audio production, with the resulting increases in TWOFIVE's commissioned sales and provision for bonuses leading to increases in cost of sales and selling, general and administrative (SG&A) expenses (corporate expenses). However, segment income for the Gaming Business increased dramatically by 90.2% YoY. Furthermore, the company has a large number of repeat customers, reflecting the high quality of its products, and the trend for 2H also looks favorable.

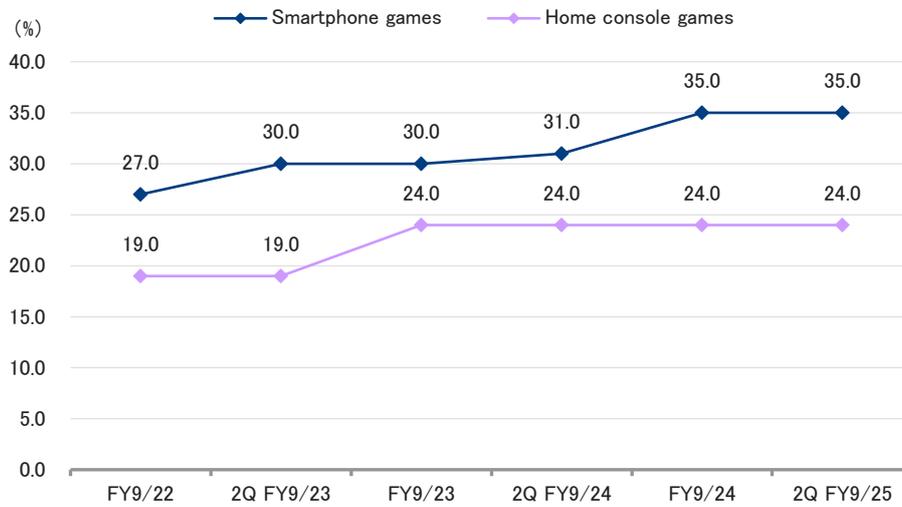
Results trends

Number of adoptions of CRIWARE in the Gaming Business



Source: Prepared by FISCO from the Company's financial results supplementary briefing materials

Adoption rate of CRIWARE in the Gaming Business



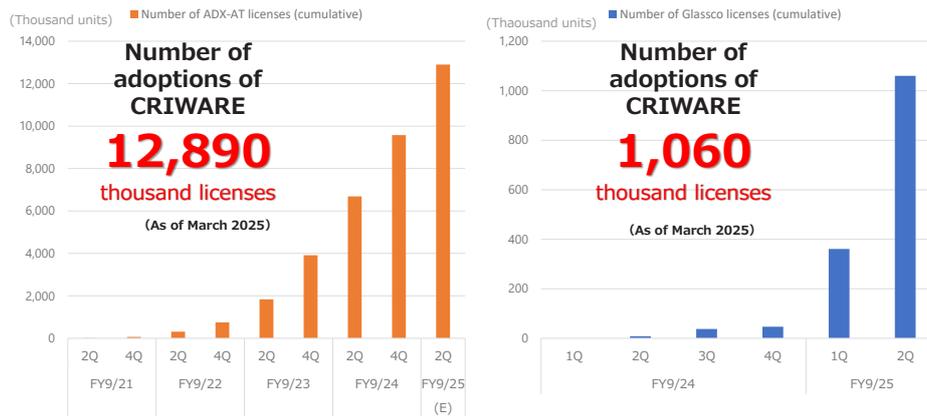
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Results trends

In the Enterprise Business, net sales in the embedded field increased 31.5% YoY. The increase mainly reflects a bulk licensing revenue payment in 1Q for the market launch of LIVE DAM WAO!, a new commercial telecommunications karaoke system by Daiichikoshō Co., Ltd. <7458>, and the recording of new licensing revenue for overseas live casinos in 2Q. Mobility field sales increased by a factor of about 2.3 YoY, mainly due to better-than-expected increase in adoption of the in-vehicle sound solution CRI ADX-AT and the full start-up of CRI Glassco, a new in-vehicle graphic display solution. In particular, CRI Glassco has seen a more rapid than expected adoption in motorcycles, where digitalization of displays has been lagging. As these had not been factored into sales forecasts for 1H for the most part, the impact on performance fluctuation was significant. Expectations have increased for CRI Glassco to become a growth strategy driver for the mobility field, which is a core business for the Company. Net sales in the cloud solutions field were down 35.9% YoY. The decrease was caused mainly by a systematic reduction of outsourcing services, which had risen sharply. This can be considered a normalization process aimed at allowing the Company to refocus on its core business of developing licensed products. As a result of the above, the number of adoptions of CRIWARE in the Enterprise Business was 12,890,000 licenses of CRI ADX-AT and 1,060,000 licensees for CRI Glassco, which grew rapidly. In addition to this strong net sales performance for the segment, the decrease in outsourcing services volume in the cloud solutions field saw an attendant decrease in outsourcing expenses, which covered increases in provision for bonuses and mobility-related sales agency commissions. As a result, segment profit for the Enterprise Business grew by a substantial 119.4% YoY.

Number of adoptions of CRIWARE (mobility)



Source: The Company's financial results supplementary briefing materials

Results trends

Entry into the European and US gaming market, expectation for expansion into the motorcycle market in India

3. Topics

In topics of interest for 1H FY9/25, the Company has accelerated its development of the European and US markets in the Gaming Business and started expansion into the motorcycle market in India. In the Gaming Business, the Company has been highly rated by DICO Deutschland GmbH, and has signed a distribution agreement with this company for Europe and the United States. DICO Deutschland GmbH offers a wide range of services for game development companies throughout the world, including development support, localization, quality assurance, and publishing support. With this partnership, the Company will be able to utilize DICO Deutschland GmbH's expansive network to promote the adoption of CRIWARE. In view of the Company's determination to rebuild its overseas business, it is possible that it may consider entering agreements with other sales agents. In mobility field of the Enterprise Business, the Company has formed an alliance with HAGIWARA ELECTRONICS CO., LTD., a subsidiary of HAGIWARA ELECTRIC HOLDINGS CO., LTD. <7467>, to develop CRI Glassco for India as a new market, and plans to build a support system with HAGIWARA ELECTRONICS CO., LTD.'s local subsidiary in India. CRI Glassco is expected to expand in India due to its ability to reduce development costs with no-code development.

FY9/25 full-year forecast revised upward on strong 1H performance

4. FY9/25 forecasts

The Company's results forecast for FY9/25 is for significant increases in sales and profits, with net sales of ¥3,530mn (up 11.5% YoY), operating profit of ¥550mn (up 49.3%), ordinary profit of ¥556mn (up 45.0%), and profit attributable to owners of parent of ¥411mn (up 35.0%). Moreover, in light of the strong 1H results, the Company has revised the full-year forecast upward by the following amounts: net sales ¥170mn, operating profit ¥166mn, ordinary profit ¥162mn, and profit attributable to owners of parent ¥99mn.

Results forecast for FY9/25

	FY9/24		FY9/25				
	Results	vs. net sales	Forecast	vs. net sales	Change %	Forecast prior to revision	Revision amount
Net sales	3,167	100.0%	3,530	100.0%	11.5%	3,360	170
Gross profit	1,717	54.2%	-	-	-	-	-
SG&A expenses	1,348	42.6%	-	-	-	-	-
Operating profit	368	11.6%	550	15.6%	49.3%	384	166
Ordinary profit	383	12.1%	556	15.8%	45.0%	394	162
Profit attributable to owners of parent	304	9.6%	411	11.6%	35.0%	312	99

Source: Prepared by FISCO from the Company's financial results

Results trends

In the Japanese economy, as overseas economies continue to grow slowly, against a backdrop of accommodative financial conditions a positive cyclical mechanism appears to be gradually gaining momentum as higher incomes are translating to increased spending and the economy is expected to continue growing at a pace exceeding its potential growth rate. In addition, corporate earnings appear to be on an improving trend, as internal and external demand edge higher. Meanwhile, capital investment is likely to continue increasing, supported by the accommodative financial conditions, including investment related to addressing labor shortages and digital technologies, R&D investment related to growth fields and decarbonization, and investment for increasing supply chain resilience. Under these conditions, the Company's policy is to set up an R&D system with an eye on businesses and markets that are expected to grow going forward, and focus its efforts on expanding the business foundation and generating Group synergies. In 2H, particularly, the Company expects to see the re-expansion of the China market and acceleration of expansion into the overseas gaming market with the reestablishment of operations in Europe and the United States, along with growth in net sales of new products such as CRI Glassco, CRI SOLIDAS, and CRI Clovis. In addition, the Company plans to continue R&D of new products that integrate technologies related to real-time processing and video and image processing, including the online communication middleware CRI TeleXus. In the assumptions for 2H, projections for CRI Glassco are unclear since it has only just been launched, while live casino and karaoke 2H licensing revenues were not expected. As such, the revised full-year earnings forecast appears to reflect only the upward revision in 1H, with 2H remaining largely in line with the initial forecast. Therefore, the 2H forecast seems somewhat conservative since the 1H performance of CRI Glassco has not been reflected.

Sales forecast for FY9/25 by segment

	FY9/24		FY9/25				
	Results	vs. net sales	Forecast	vs. net sales	Change %	Forecast prior to revision	Revision amount
Gaming Business	1,676	52.9%	1,900	53.8%	13.3%	1,840	60
Middleware/tools	1,268	40.0%	1,480	41.9%	16.7%	1,460	20
Overseas	157	5.0%	280	7.9%	77.6%	280	0
Audio production	408	12.9%	420	11.9%	2.9%	380	40
Enterprise Business	1,490	47.1%	1,630	46.2%	9.4%	1,520	110
Embedded	745	23.5%	760	21.5%	2.0%	800	-40
Mobility	256	8.1%	530	15.0%	106.7%	380	150
Cloud solutions	489	15.5%	340	9.6%	-30.5%	340	0

Source: Prepared by FISCO from the Company's financial results supplementary briefing materials

By segment, the net sales forecast for the Game Business was increased by ¥60mn. The strategy for 2H has not changed from the start of the year, and in domestic middleware/tools, the Company intends to focus on sales expansion of the new product CRI Clovis, increasing adoptions of CRIWARE by leveraging the effects of an alliance with the spatial sound offering Sound xR of Yamaha Corporation <7951>, and strengthening sales activities to grow the number of titles using CRI TeleXus for games. Overseas, the Company will directly engage with the markets in China, Europe, and the United States using video products as a door-opener, and will strengthen its direct sales and marketing capabilities by building a network of sales agents through contracts with multiple sales agents. For now, the Company is selling in China and North America both directly and through sales agents, and in Europe through the sales agent DICO Deutschland GmbH. In audio production, the Company aims to increase recognition of TWOFIVE by restarting events that were cancelled due to COVID-19. Furthermore, in China, where there is high demand for Japanese voice actors, the Company's policy is to increase orders by leveraging its advantage of having a local subsidiary and local connections. The upward revision of the forecast appears to reflect only the addition of the amount of outperformance in 1H, with middleware/tools revised upward by ¥20mn and audio production by ¥40mn.

Results trends

In the Enterprise Business, the net sales forecast increased by ¥110mn. The Game Business strategy for 2H is also unchanged from the start of the year. In the embedded field, as the Company withdraws from the SANDO business (business of pachinko ball dispensing machines) in gaming machines and shifts its management resources into growth fields, it is focusing on sales expansion of the new product CRI SOLIDAS and planning a major CRI TeleXus project for non-game applications. On the other hand, since it is already known that there will be no revenues from bulk licenses of karaoke and annual licenses for live casinos in 2H, they have not been factored into the forecast. In the mobility field, the Company has completed software investment for CRI ADX-AT and CRI Glassco, and is now entering the investment recovery phase. For CRI Glassco, sales increased rapidly in 1H, and its adoption in a wider number of vehicle types is expected, however, since it was only just launched in 1H and the sales environment for 2H cannot be projected, 2H projects have been left unchanged from the initial forecast, and a large amount has not been factored in. In the cloud solutions field, the Company's policy is to continue shifting from outsourcing to licensing, with new products slated to be launched in FY9/26. Due to the above factors, the net sales forecast for the embedded fields was revised downward by ¥40mn, while the forecast for mobility was revised upward by ¥150mn, and the forecast for cloud solutions was left unchanged.

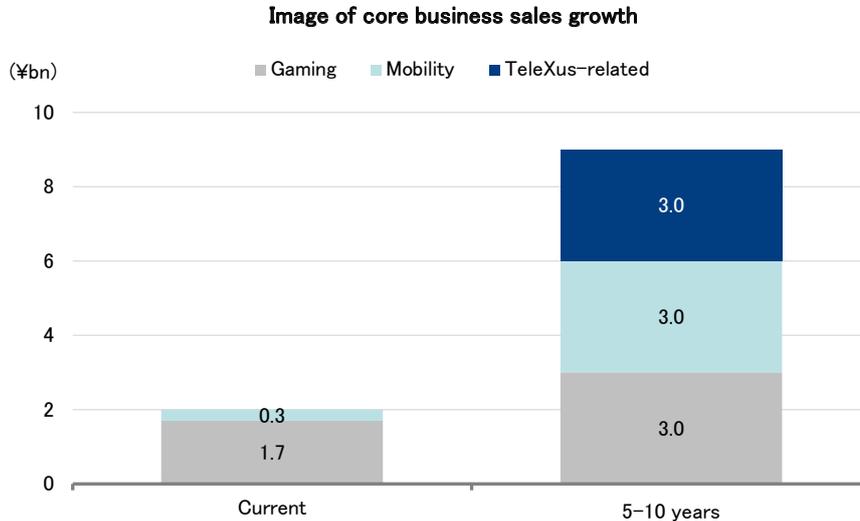
Growth strategies

Gaming, mobility, and TeleXus-related businesses are the three growth pillars

1. Basic policy

The Company's basic policy in its growth strategy is to take the technologies, expertise, knowledge, and funds obtained in the Gaming Business and invest them in R&D and in strengthening sales in the Enterprise Business, thereby expanding its business domains and achieving dramatic growth for the overall CRI Group. Within this strategy, the Company plans to transform its current gaming-dependent business structure into a business structure with three pillars as its core businesses over the medium to long term: gaming, mobility, and TeleXus-related businesses. On top of that, the Company aims to become a ¥10.0bn company in 5–10 years. In addition, the Company's policy is to achieve a significant increase in its profit margin, which is currently at a low level due to the CRI TeleXus investment phase, mainly by expanding the licensing business.

Growth strategies



Source: Prepared by FISCO from the Company's financial results supplementary briefing materials

CRI Glassco a key driver in mobility

2. Growth strategies for core businesses

(1) Gaming

In Japan, the Company will focus on alliances, and overseas on accelerating its entry into markets. In Japan, the Company will maintain its existing middleware business while expanding its market share by launching new products, strengthening functions and expanding its product lineup through alliances with the products of other companies, such as Yamaha Corporation, aiming to achieve involvement of the Company's technologies and products in as many game titles as possible. In particular, the new product CRI Clovis enables linking of real-world information inside a game, and is expected to be adopted more widely in sports games, fan activities, and communication games. Overseas, the Company aims to re-expand its business in China and re-enter the markets of Europe and the United States. In China, its momentum is growing, as the game market has entered a recovery trend after being suspended due to factors such as COVID-19. Furthermore, by targeting HarmonyOS NEXT, which is seen as a third major OS together with iOS and Android, the Company aims to expand its licensing business for the CRIWARE brand across three platforms. To achieve this, the Company's policy is to strengthen its sales capabilities and return to a growth trajectory. In Europe and the United States, the Company aims to achieve re-entry to the market with an exhibition at the Game Developers Conference (GDC). It will strengthen local sales functions by establishing subsidiaries and forming alliances with sales agents. The sales expansion in Europe and the United States could also be surprisingly smooth due to the established track record of middleware implementation in major titles such as Destiny and Hitman, a strong local reputation for image-related middleware such as CRI Sofdec, the early signing of a distribution agreement with DICO Deutschland GmbH, and the increasing popularity of indie games. As a result, the Company will expand net sales from ¥1.7bn to ¥3.0bn in 5-10 years.

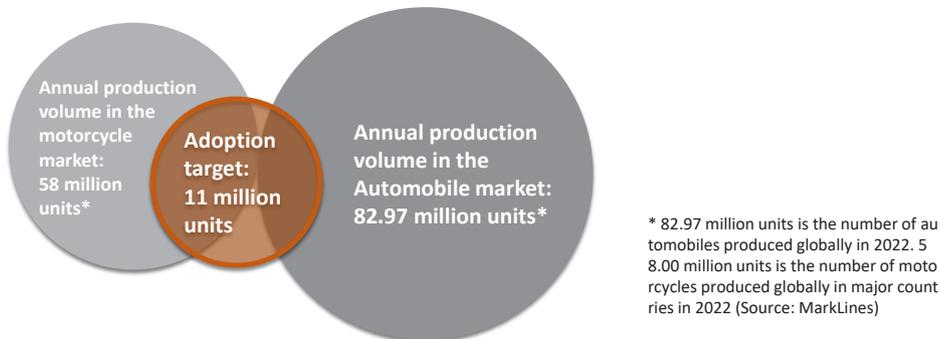
CRI Middleware Co., Ltd. | 4-Jul.-2025
 3698 Tokyo Stock Exchange Growth Market | <https://www.cri-mw.co.jp/en/ir/>

Growth strategies

(2) Mobility

The introduction of CRI ADX-AT and CRI Glassco into the mobility field has gone smoothly, and there is a sense of potential for growth by promoting introduction among overseas manufacturers in addition to domestic ones. Since the technology for organizing important information and communicating it to the driver is the same as that used in games, the Company is in a good position for demonstrating its advantages. Accordingly, for the time being, the plan is to promote lateral expansion of CRI ADX-AT and CRI Glassco across vehicle types and manufacturers, and build up a track record of adoption. The Company has a large number of growth driver products, but CRI ADX-AT in particular has been extremely highly rated due to its ability to control various sounds in and outside the vehicle cabin, and significantly reduce the cost, number of parts, installation surface area, and electricity consumption without compromising sound quality or volume. The Company aims to achieve adoption in nearly 20% (15 million vehicles) of automobiles produced worldwide, and to expand its functionality from meters to other functions, such as ETC, in an effort to increase revenues per vehicle. The strengths of the new solution CRI SOLIDAS include being composed of a small amount of ordinary parts that have little procurement or inventory risk and being able to comply with any product with a minimum system configuration. The Company will leverage these strengths to achieve its adoption for mobility. With its strong background in intuitive operation using UI technologies developed in the gaming field, the Company seeks to extend the track record of CRI Glassco from the motorcycle market to the automobile market, with the goal of achieving adoption in nearly 10% (11 million vehicles) of motorcycles and automobiles produced worldwide. As a result, the Company’s policy is to increase net sales from ¥0.3bn to ¥3.0bn in 5–10 years. In particular, CRI Glassco is currently growing rapidly, and expected to be a key driving in achieving net sales of ¥3.0bn.

CRI Glassco growth strategy



Source: The Company's financial results supplementary briefing materials

Growth strategies

(3) TeleXus-related

CRI TeleXus has strengths in function such as simultaneous conversation among a large number of people, spatial sound and spatial presentation, and AI interpreting. The solution is therefore able to build an online communication platform through real time communication technology, video in communication spaces, and advanced voice relay technologies. In particular, the AI interpreting function, a new feature under development, will enable language barriers to be removed with ease in settings where users are communicating with foreigners thanks to its strengths in practical translation accuracy, translation speed, and multilingual capabilities. Supported by these strengths, the Company will focus on increasing the number of titles for which CRI TeleXus is adopted in the gaming market while aiming to enter new non-game markets such as mobility, events, and education. Specifically, the Company's strategy is to build up a track record of adoption for the gaming market in order to win recognition for excellence in other voice chat aspects such as low latency and low load, thereby increasing usage among users. The solution has already been adopted for the virtual reality battle action game Brazen Blaze. In addition, in the mobility field, it plans to support Mobility as a Service (MaaS)*¹ communities, which are expected to form with the spread of connected cars*². In other areas, the solution is envisaged creating another source of revenue alongside real-world events by realizing online events with spatial sound that enables users to experience even the cheers and passion of spectators. TeleXus is also expected to be able to alleviate the sense of isolation felt during online learning by recreating the soundscape inside a classroom with the positional relationship of the teacher and classmates. TeleXus-related net sales are currently marginal, but the Company's policy is to expand sales to ¥3.0bn in 5–10 years by accelerating its expansion into non-game markets.

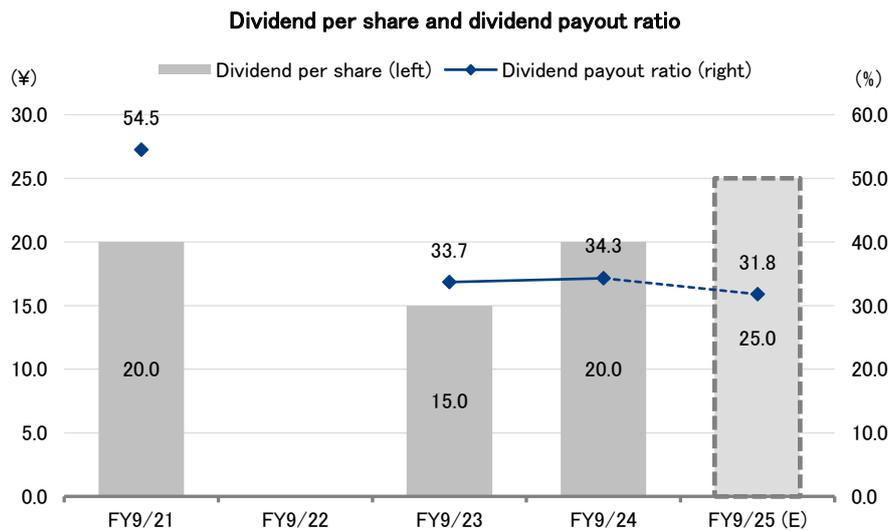
*1 A service that is capable of responding to individual mobility needs of travelers and others, conducting all functions such as search, reservation, and payment by optimally combining multiple public transport options and various mobility services.

*2 Vehicles that are constantly connected to the internet

Shareholder return policy

The Company plans to increase the dividend for FY9/25 from the initial forecast by ¥5.0 to ¥25.0

The Company considers the expansion of business and enhancement of corporate value to be the greatest return of profit to shareholders. With regard to dividends of surplus, the Company's policy is to set a consolidated dividend payout ratio of 30%, having given overall consideration to the balance of growth investments and shareholder returns. Furthermore, the Company's Articles of Incorporation stipulate that the Company may pay a dividend of surplus by a resolution of the Board of Directors in accordance with the stipulation of Article 459 paragraph 1 of the Companies Act, except where otherwise provided by laws and regulations, and that the record date for the year-end dividend shall be September 30 of each year and the record date for the interim dividend March 31 of each year. Based on the above policy and operating results, the Company has determined that the dividend per share for FY9/25 shall be ¥25.0 per share, an increase of ¥5.0 from the initial forecast.



Source: Prepared by FISCO from the Company's financial results



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