MIGALO HOLDINGS | 5535 TSE Prime

Q2 Follow-up

Upward earnings revision was within expectations, but the Company's true potential is even greater

◆ Q2 FY2025/3 results review

On November 7, 2024, Migalo Holdings Inc. (hereafter, the Company) announced its Q2 FY2025/3 earnings results. In H1, sales increased 23.3% YoY to JPY 30,001 mn, and operating profit fell 15.6% YoY to JPY 1,935 mn. Q1 saw a decline in sales and profit due to the impact from last year's concentration of new property deliveries. However, Q2 exceeded expectations with strong pre-owned property sales, higher-than-anticipated selling prices for new properties, and the DX Promotion business posting a profit for the first time in three quarters. As a result, operating profit in Q2 increased by 150% YoY.

FreeiD, the Company's facial recognition platform service and a key growth driver, has been implemented in 118 condominiums as of the end of September, an increase of 77 compared to the same time last year. SIR believes that the Company's proactive PR and IR efforts, along with promotional activities aimed at partner financial institutions, are likely to further accelerate the adoption of FreeiD as a standard feature in residential properties.

◆ Company raised FY2025/3 full-year earnings forecast

Net sales were revised upward by 2% from the initial forecast to JPY 51,000 mn (up 19.5% YoY), operating profit by 1.9% to JPY 2,650 mn (up 6% YoY), and net income by 4% to JPY 1,300 mn (up 16.9% YoY). The ordinary profit forecast remains unchanged at JPY 2,100 mn (up 3% YoY). While these revisions reflect stronger-than-expected performance in H1 results, the management also reaffirmed that this fiscal year remains an investment period. SIR believes the forecast remains sufficiently conservative, even after the upward revision, given the favorable business environment. In addition, the following were announced: 1) a JPY 2 increase in the year-end dividend, raising it to annual JPY 28 per share; 2) the introduction of a shareholder benefit program at fiscal year-end; and 3) a policy for the sale of personally held shares by the President and CEO to improve the tradable share ratio.

◆ Share price insights

On November 18, however, the above share sale policy was withdrawn. Assuming the Company's tradable share ratio remains unchanged from 37.6% at the end of March 2024 to the end of March 2025, an average daily closing price of at least JPY 1,800 during the January to March 2025 period would be needed to meet the Prime Market's continued listing criteria of a tradable share market capitalization of JPY 10,000 mn. At a share price of JPY 1,800, the valuation would correspond to a PER of 20.2x based on FY2025/3 forecast, a PBR of 2.38x using a BPS of JPY 757 as of the end of September 2024, and a projected dividend yield of 1.56%. Considering the Company's ROE of 11.2% for FY2024/3, SIR views this valuation as reasonable and not indicative of overvaluation.

JPY mn, %	Net Sales	YoY	Operating Profit	YoY	Ordinary Profit	YoY	Net profit	YoY	EPS JPY	DPS JPY
2022/3 C	35,186	27.8	2,208	5.5	1,918	7.1	1,217	4.0	83.41	13.50
2023/3 C	37,259	5.9	2,919	32.2	2,518	31.3	1,576	29.5	107.96	20.00
2024/3 C	42,674	14.5	2,500	-14.4	2,042	(18.9)	1,112	(29.4)	76.50	22.50
2025/3 CE	**51,000**	19.5	**2,650**	6.0	**2,100**	2.8	**1,300**	16.9	**88.92**	28.00
2024/3 H1	24,330	34.1	2,292	16.8	2,067	13.9	1,352	16.1	79.75	-
2025/3 H1	**30,001**	23.3	**1,935**	(15.6)	**1,641**	(20.6)	**1,101**	(18.6)	**75.39**	12.00

Source: Compiled by SIR from the company IR material. Note: A two-for-one stock split of common stock was conducted on July 1, 2024. EPS and DPS figures are split-adjusted. Figures may differ from the Company's materials due to differences in SIR's financial data processing and the Company's reporting standards.

Focus Point

The FreeiD service, which integrates with a wide range of facial recognition engines and consolidates fragmented facial recognition IDs onto a single platform, has the potential to become a game-changer in the fiercely competitive and fragmented facial recognition industry. Sustained expectations for its success could drive a re-rating of the stock.

Key Indicators	
Share price (11/18)	1,602
YH (24/6/15)	2,655
YL (24/1/15)	681
10YH (24/6/15)	2,655
10YL* (21/1/21)	164
Shrs out. (1k shrs)	14,702
Mkt cap (JPY mn)	23,553
Equity ratio (24/9)	20.8%
FY24/9 P/B (act)	2.12x
FY25/3 P/E (CE)	18.0x
FY24/3 ROE (act)	11.2%
FY25/3 DY (CE)	1.75%

Note*: Share price and financial data of predecessor PROPERTY AGENT, Inc. (3464)

Daily Stock Price Chart (1Y: Daily)

Source: Trading view

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Q2 FY2025/3 Results Review

■ Summary: progress exceeds initial forecasts

By business segment in Q2 (Jul-Sep), the DX Promotion Business, which is the Company's growth engine, saw its sales increase by 40% YoY, driven by the expansion of the facial recognition platform service (FreeiD) to major developers, as well as new project acquisitions in cloud integration. Quarterly sales reached a record high, and operating profit returned to positive territory for the first time in three quarters. However, aggressive hiring of human resources and other upfront investments have raised the Company's breakeven sales point. As a result, the management has adopted a cautious outlook, anticipating that the Company may remain near breakeven for the foreseeable future despite its recent return to profitability.

In the DX Real Estate Business, which is the Company's profit center, the purchase and resale of pre-owned properties continued to perform above expectations, as in Q1, while sales prices for new properties remained higher than anticipated. Despite the low profit margin, the number of transactions for pre-owned condominiums for investment increased by 133 units YoY, reaching 284 units. This reflects not only the favorable sales environment in the real estate market that is continuing to outperform expectations, but also serves as evidence of the Company's strong sales capabilities.

As a result, the progress rate of H1 results against the Company's initial forecasts was 60% for net sales, 74.4% for operating profit, 78.2% for ordinary profit, and 88.1% for net profit, all exceeding the simple benchmark level of 50%.

Given the strong performance to date and the steady growth expected to continue into Q3 and beyond, the Company has decided to raise its full-year earnings forecast, while also increasing the year-end dividend and introducing shareholder benefits.

Segment Information

Segments	(JPY mn)	FY2025/3 CE	FY2024/3 H1	FY2024/3 H1	Change (%)	2024/3 Apr-Jun	2025/3 Apr-Jun	Change (%)	2024/3 Jul-Sep	2025/3 Jul-Sep	Change (%)
DX Promotion	Net Sales		**1,160**	**1,674**	*44.3*	**524**	**783**	*49.3*	**636**	**891**	*40.0*
	Operating Profit		**(64)**	**(47)**	-	**(49)**	**(72)**	-	**(15)**	**25**	*Turn Profit*
	OP Margin		-5.5%	-2.8%		-9.4%	-9.3%		-2.4%	2.9%	
DX Real Estate	Net Sales		**23,209**	**28,362**	*22.2*	**14,768**	**12,915**	*(12.6)*	**8,441**	**15,447**	*83.0*
	Operating Profit		**3,066**	**2,445**	*(20.3)*	**2,209**	**1,095**	*(50.4)*	**857**	**1,349**	*57.4*
	OP Margin		13.2%	8.6%		15.0%	8.5%		10.2%	8.7%	
Tolal	Net Sales	**51,000**	**24,330**	**30,001**	*23.3*	**15,289**	**13,671**	*(10.6)*	**9,041**	**16,330**	*80.6*
	Operating Profit	**2,650**	**2,292**	**1,935**	*(15.6)*	**1,835**	**792**	*(56.9)*	**457**	**1,143**	*150.1*
	OP Margin	5.2%	9.4%	6.4%		12.0%	5.8%		5.1%	7.0%	

Source: Compiled by SIR from the Company IR material.
Note: Figures may differ from the Company's materials due to differences in SIR's financial data processing and the Company's reporting standards.

FY2025/3 The Company Full-year Forecast

■ **Positioning FY2025/3 as an "investment period" unchanged, with true potential extending beyond the upwardly revised forecast.**

Migalo Holdings projects net sales to rise 19.5% YoY to JPY 51,000 mn, operating profit to increase 6% YoY to JPY 2,650 mn, ordinary profit to grow 3% YoY to JPY 2,100 mn, and net profit to increase 16.9% YoY to JPY 1,300 mn.

The Company did not disclose earnings forecasts by segment, but under its basic policy of focusing on accelerated growth in the DX Promotion business by actively hiring personnel and executing M&A deals, it aims to achieve sales growth at a rate at least equivalent to the previous year by expanding mainly condominium-related FreeiD sales, capturing more cloud integration projects, and expanding its DX-related projects coming online. The backdrop to this is that the Company announced its plan to grow sales of the DX Promotion business to JPY 5,000 mn in FY2027/3, nearly double the amount reported in FY2024/3. Achieving this will require urgent upfront investment in securing and hiring more IT engineers, with the Company deeming it sufficient so long as profitability is attained by FY2027/3. In the DX Real Estate business, the Company has adjusted its sales strategies for new and pre-owned properties in response to the current favorable market conditions. For new properties, it plans to extend the sales period to maximize per-unit profitability. As a result, the recognition of some properties originally scheduled for delivery in Q4 will be deferred to the next fiscal year, reflecting an effort to smooth out earnings for the coming fiscal year.

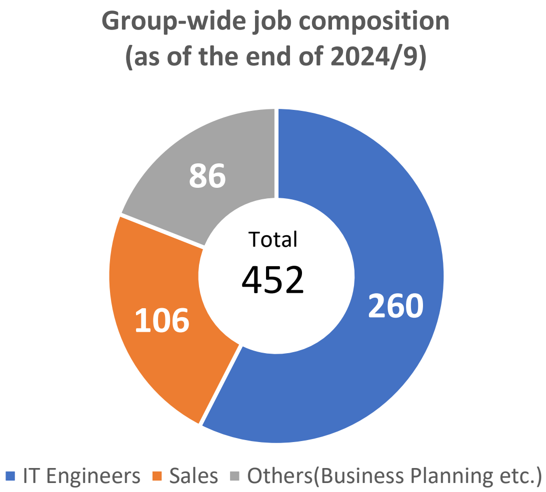
As such, SIR believes that the upwardly revised forecast does not fully capture the true strength of the market environment and the Company's underlying fundamentals.

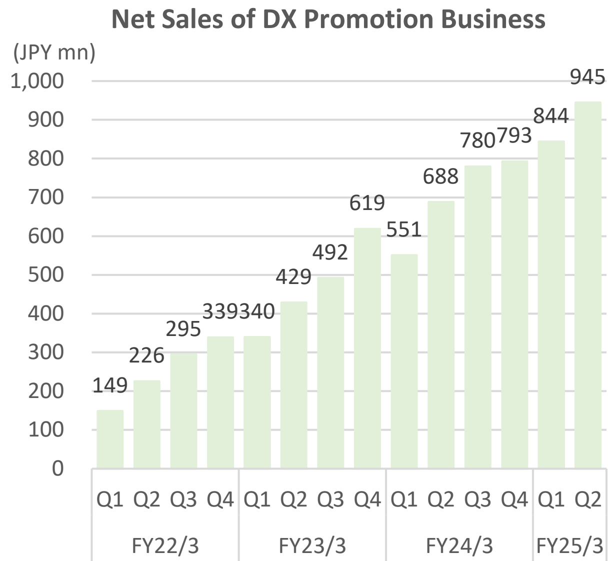
Continuing to hire additional IT engineers in DX Promotion business

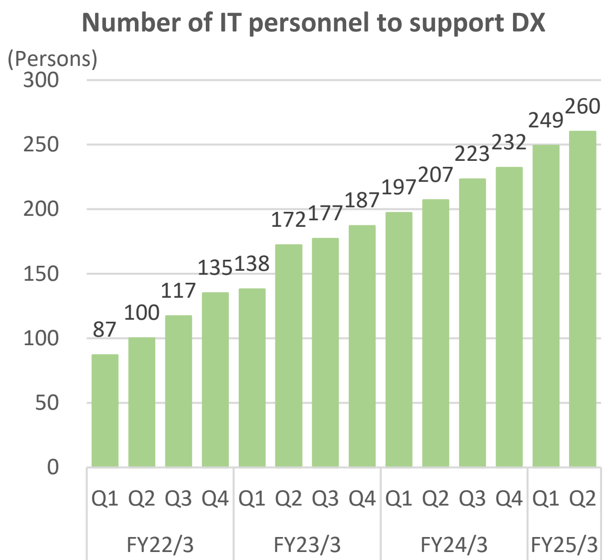
The Company is advancing its strategy to grow topline in the DX Promotion business by hiring over 50 engineers per year on average, including through M&A, with the goal of achieving JPY 5,000 mn in net sales and securing profitability by FY2027/3.

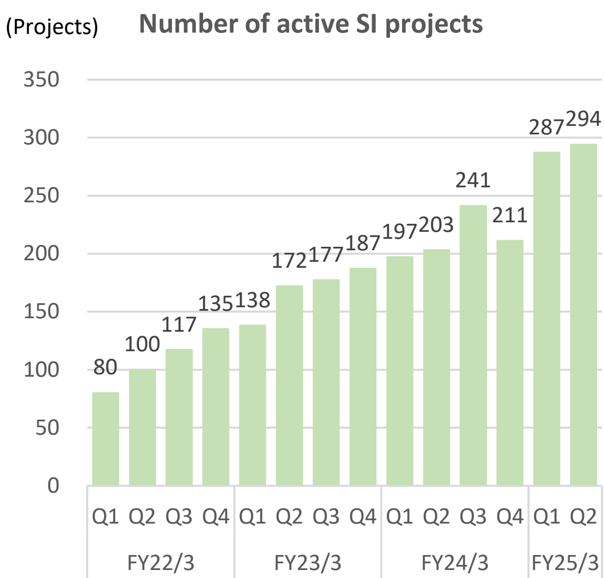
In September 2024, the Company announced the acquisition of BEST PRACTICE Inc., which has approximately 30 employees and provides Salesforce-related services, making it a subsidiary (to be consolidated starting from Q3 results). While the acquisition price was not disclosed, the purchase was entirely funded with cash on hand, indicating that the deal is not a significant burden from a balance sheet perspective. According to the management, BEST PRACTICE Inc. has limited overlap in its customer base and geographic coverage with other group companies operating in the Salesforce domain, including Berners Inc., CloudTechPlus Co., Ltd., and resolver inc.. By Introducing the operational framework from the Company's DX Promotion business, the management expects to improve both productivity and profitability at Best Practice Inc.

As shown in the charts below, the number of IT personnel has been steadily rising, which has contributed to an increase in the number of companies supported to 185, up by 56 from the previous year. Active SI projects also hit a record high of 294 (+45% YoY).









Source: Compiled by SIR from the company IR material.

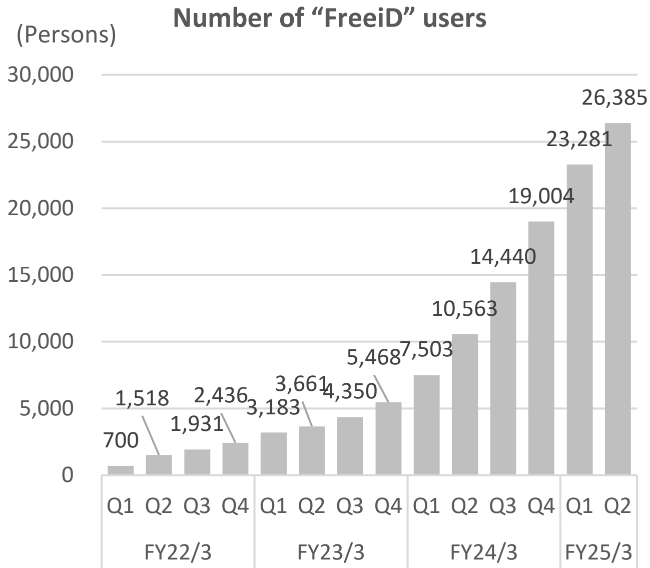
■ The Progress on the FreeiD Implementation Plan

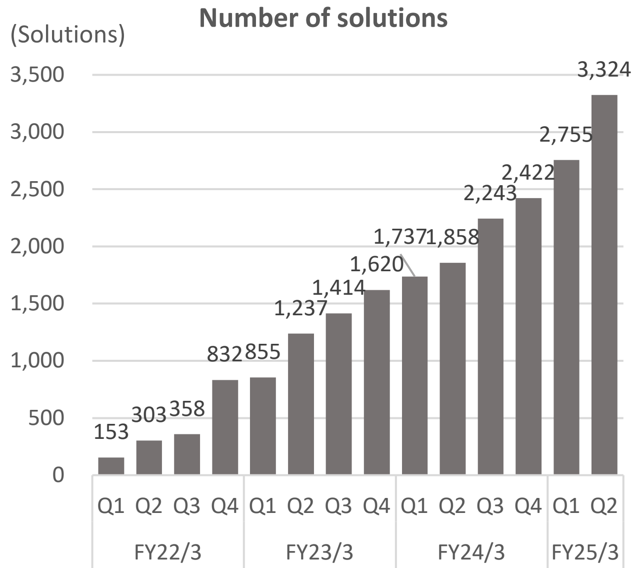
The promotion of FreeiD involves implementing it to condominiums, offices, nurseries, and construction sites, etc., as well as using the facial recognition ID platform for payments and collaboration with local governments.

The number of FreeiD users grew 2.5 times to 26,385 in the last twelve months, and the number of solutions (facial recognition devices) also increased 1.8 times to 3,324 units.

As shown in the table below, FreeiD was recently implemented in an office building owned by Dai-ichi Life, realizing the concept of an "Full Facial Recognition Office Building." In addition, the number of condominium developers adopting FreeiD as standard feature in their properties has expanded to five companies, now including BRI Co., Ltd., alongside existing adopters such as Apest Co., Ltd., Fudeal Creation Co., Ltd., Marimo Co., Ltd., and Mugen Estate Co., Ltd.

The Company has begun actively promoting FreeiD by raising awareness through information sessions, partly in response to requests from partner financial institutions involved in the selling of Full Facial Recognition Condominiums. The implementation of FreeiD can enhance property values, thereby increasing the collateral value for financial institutions. This provides an incentive for these institutions, as it enables them to offer larger property purchase loans. As a result, more financial institutions are seeking to better understand FreeiD's features to effectively communicate its benefits to customers. Given these developments, an accelerated adoption of FreeiD as standard feature seems likely.





Source: Compiled by SIR from the company IR material.

FreeiD Implementation Status (July 2024 onward)—The progress is viewed positively

Date of disclosure		Disclosures regarding the implementation of FreeiD
2024	Aug. 28	FreeiD and Mitsubishi Estate's comprehensive smart home service HOMETACT were selected as standard features for Apest's urban residence series "Fullea" – the first joint package sale of HOMETACT and FreeiD.
	Sep. 3	DXYZ introduced its integrated "LIM Cloud × FreeiD" system in Haseko Real Estate's first "Full Facial Recognition Condomium", the "WORVE Naha Izumizaki," marking the first joint demonstration project between Haseko and DXYZ.
	Oct. 15	FreeiD was implemented in the fourth condominium developed by Mugen Estate.
	Oct. 16	FreeiD was further implemented in Raito Kogyo's condominiums and its Chubu regional office.
	Oct. 18	BRI announced that Full future condominiums it supplies will adopt FreeiD as standard feature.
	Oct. 21	FreeiD was implemented in Dai-ichi Life's Gotanda Alley building after a major renovation, achieving the first "Full Facial Recognition Office Building" for a life insurance company.

Source: Compiled by SIR from the company and DXYZ Inc. of Migalo Group website

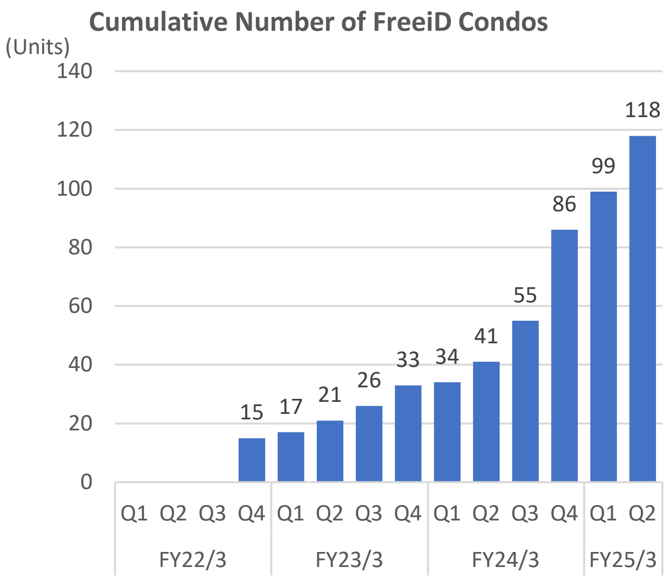
*From Q1 FY2025/3, the Company revised its calculation methodology for both the DX Real Estate Membership trends and Sales Contract trends, and retroactively adjusted these figures accordingly.

DX Real Estate Business defers delivery of some properties originally scheduled for Q4 to next fiscal year

DX Real Estate membership, which Migalo Holdings positions as the "core" of the DX Real Estate business, grew steadily, reaching 181,681 as of the end of September 2024.

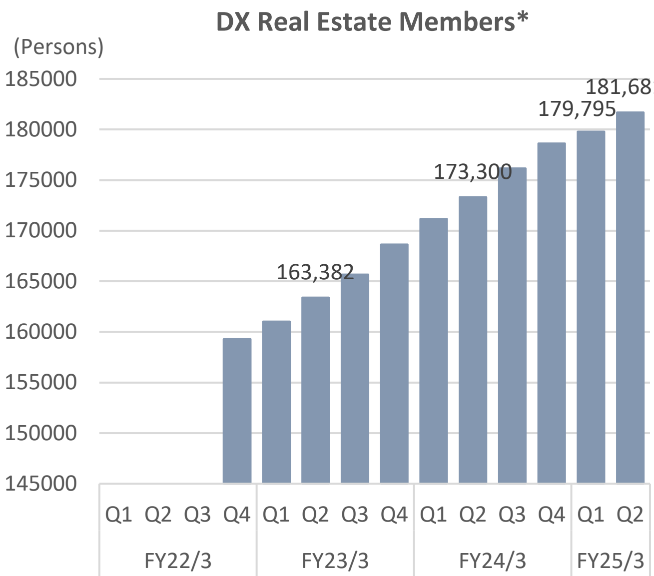
Q2 FY2025/3 unit sales by property type in the DX Real Estate business consisted of 90 new investment condominiums (from 61, a year-ago), 284 pre-owned investment condominiums (151), 53 1LDK type residential units (34), and 3 rental apartment (2). The strong sales in Q2 exceeded initial plans, not only for pre-owned investment condominiums but also for new investment condominiums.

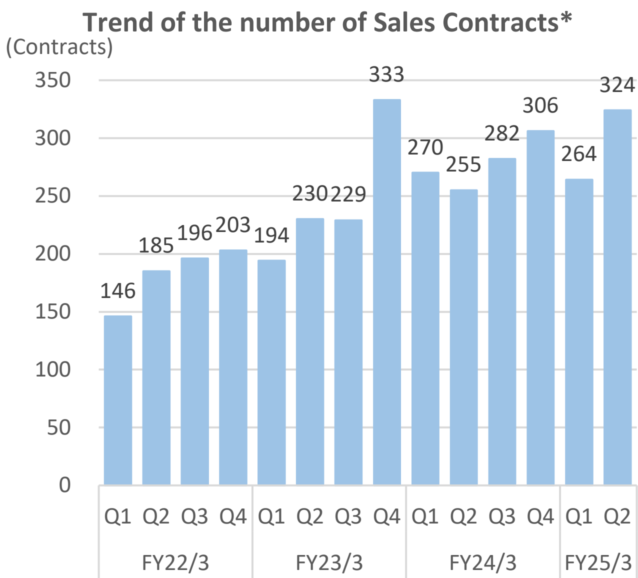
According to the Company, sales of both new and pre-owned properties remain strong across the real estate industry. While there were concerns about the impact of rising domestic interest rates, they have so far had little effect on the sector. On the cost side, there are no signs that construction material or labor costs will decline; on the contrary, they still seem to have room to rise further. As a result, the management is maintaining a cautious stance on profitability and proceeding with its business plans carefully.



Given these circumstances, the Company has adjusted its sales strategies for new and pre-owned properties, considering factors such as hotter-than-expected first half sales, the outlook for pre-owned property sales, procurement conditions, and its own financial position. For new properties, sales period will be extended to maximize per-unit profitability. The recognition of some properties initially scheduled for delivery in Q4 will be deferred to the next fiscal year to smooth out earnings, as outlined in the Q2 results briefing presentation.

This offers insight into forecasting DX Real Estate Business sales growth for FY2026/3. Considering industry trends such as condominium supply-demand dynamics and pricing, as well as market consensus, SIR views an estimated 15% growth rate as not out of line.





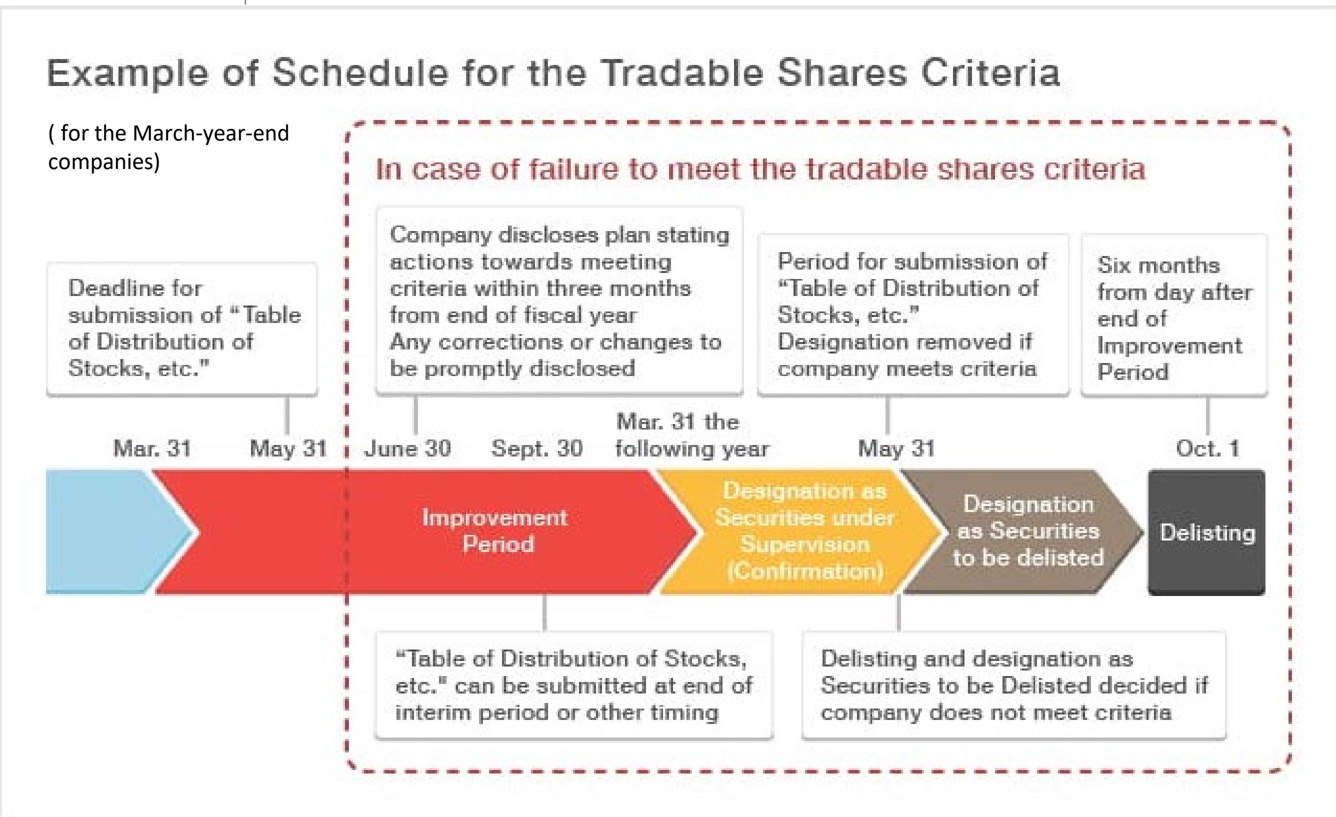
Source: Compiled by SIR from the company IR material.

The Company's policy and examination schedule for meeting the tradable shares market capitalization criteria

■ **Policy for share sale by the President announced, but withdrawn 11 days later**

PROPERTY AGENT, Inc., the Company's predecessor, selected the Prime Market in connection with the April 2022 reorganization of the Tokyo Stock Exchange's market classification, but did not meet the continued listing criteria for the Prime Market. Accordingly, it submitted a "Plan for Compliance with the Continued Listing Criteria for the New Market Classification" in December 2021. When the company listed its shares on the Prime Market in October 2023 as MIGALO HOLDINGS Inc., it was subject to transitional measures as part of the reverse IPO examination, but out of the five criteria for continued listing, the Company did not meet the minimum listing threshold of JPY 10,000 mn in market capitalization of the tradable shares.

Based on the Tokyo Stock Exchange's examination schedule for compliance with the Prime Market criteria, the Company, which has a fiscal year ending in March, must achieve compliance with the criteria by the end of March 2027. The transitional measure period will conclude in March 2025. To meet the criteria, the product of 1) the average daily closing price during the three months (January to March 2025) prior to the end of the transitional measure period and 2) the number of tradable shares at the fiscal year-end must be at least JPY 10,000 mn. If the Company fails to meet this threshold, it will enter an Improvement Period, and the next examination will be based on the product of the average daily closing price during January to March 2026 and the number of tradable shares at the end of March 2026. If the threshold is still not met, the Company will undergo another Improvement Period, and a final examination will be conducted using the product of the average daily closing price during January to March 2027 and the number of tradable shares at the end of March 2027. If the Company fails to meet the criteria by the end of March 2027, it will be designated as "Securities under Supervision" until compliance is achieved. If compliance is still not achieved while under supervision, the Company's shares will ultimately be delisted.



Source: JPX, Details of Continued Listing Criteria https://www.jpx.co.jp/english/equities/listing/continue/details/02.html

* https://ssl4.eir-parts.net/doc/5535/tdnet/2521042/00.pdf

** https://ssl4.eir-parts.net/doc/5535/tdnet/2531758/00.pdf

To avoid the risk of delisting, the Company had previously urged the President and CEO, Mr. Sei Nakanishi to gradually release his holdings into the market to increase the number of tradable shares. Based on the compliance examination schedule mentioned above, the Company set the end of December 2024 as the deadline for share releases and announced a "Policy for the Sale of Shares by the President to Improve the Tradable Share Ratio"* alongside its FY2025/3 H1 results. However, at 12:00pm on November 18, the Company announced the withdrawal** of this policy, explaining that it had "decided that withdrawing this policy would be in the best interest of our shareholders and investors as well as the Company." It further stated that "from a medium to long-term perspective, maintaining a Prime Market listing would help enhance market capitalization and preserve business advantages built on reputation."

Share Price Insights

*** https://ssl4.eir-parts.net/doc/5535/tdnet/2523702/00.pdf

■ Stock price above JPY 1,800 likely to be in focus until March 2025

As of the end of March 2024, the Company's tradable share ratio stood at 37.6%***. Assuming this ratio remains unchanged through the end of March 2025, for the market capitalization of tradable shares to exceed JPY 10,000 mn, the Company's total market capitalization would need to reach at least JPY 26,600 mn. This equates to an average daily closing price of at least JPY 1,800 per share during the January to March 2025 period. Meeting this threshold would fulfill the continued listing criteria for the Prime Market and eliminate the most significant factor contributing to the share's valuation discount.

On the other hand, it is necessary to consider the risk scenario where the Company's stock price remains below JPY 1,800 during the January to March 2025 period. At a share price of JPY 1,800, the valuation would correspond to a PER of 20.2x based on FY2025/3 forecast, a PBR of 2.38x using a BPS of JPY 757 as of the end of September 2024, and a projected dividend yield of 1.56%. Considering the Company's ROE of 11.2% for FY2024/3, SIR views this valuation as reasonable and not indicative of overvaluation. That said, in past periods of stock price rallies, trading volumes were often dominated by short sellers, suggesting that fundamentals are not always reliably reflected in the stock price.

The January to March 2025 period will be an important time as market attention shifts to the Company's FY2026/3 outlook, alongside the ex-date for dividends and shareholder benefits at the end of March. Recognizing these heightened expectations, the Company is expected to actively enhance its PR and IR efforts, leveraging various venues and opportunities. These efforts will focus on reducing information asymmetry by improving both the quality and quantity of information shared, including hosting business plan briefings for both institutional and individual investors. SIR believes that new information disclosures, particularly progress updates on FreeiD implementation, could act as a significant catalyst and support a healthy revaluation of the Company's Enterprise Value.

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