



MIGALO HOLDINGS | 5535 TSE Prime

Q3 Follow-up



MIGALO
HOLDINGS

Qualitative shift in operating profit underway

◆ **Q3(Oct-Dec) FY2026/3 Earnings results review:** On February 9, MIGALO HOLDINGS Inc. (hereafter, the Company) announced its Q3 earning results. Net sales increased 0.7% YoY to JPY 10,408 mn, operating profit decreased 10.8% YoY to JPY 363 mn. The key takeaway from the Q3 results is that the DX Promotion business posted operating profit of JPY 164 mn, one year ahead of plan, driven by accelerated FreeID adoption and M&A, despite ongoing upfront investment. This indicates the initial contribution of recurring DX-support earnings and a qualitative shift in profit mix. DX Real Estate business also progressed as planned, with higher investment condominiums prices and improvements in gross profit on pre-owned properties. The number of condominium buildings implementing FreeID, the Company's facial recognition platform service and a key growth driver, adopting the system increased to 307 as of the end of December 2025, up from 205 at the end of March. Over 100 condominiums are undergoing implementation or in the pre-implementation phase. Progress in the first nine months toward the Company's full-year forecasts shown below is steady, with net sales at 66.8% and operating profit at 82.3%.

◆ **Showing a comfortable margin for achieving the Company's earnings forecast:** The Company maintained its FY2026/3 earnings forecast, which it revised upward a second time on December 15, 2025. It expects net sales to rise 16% YoY to JPY 60,000 mn, operating profit to increase 10.6% YoY to JPY 3,000 mn, ordinary profit to grow 6.0% YoY to JPY 2,250 mn, and net profit to fall 1.5% YoY to JPY 1,370 mn. The Company kept its year-end dividend per share at JPY 5.50, bringing the full-year dividend per share to JPY 8.50 together with the interim dividend of JPY 3.00. Even so, it retains strategic flexibility, including the option to push back the delivery of some newly built properties originally slated for Q4 into the next fiscal year. This should be viewed positively, as it indicates Management's latitude in maximizing shareholder value over the medium to long term.

◆ **Share price insights:** On a single-year earnings forecast basis, the Company's shares trade at a forward P/E ratio of 18x, a P/B ratio of 1.7x, and a dividend yield of 2.10%. Even after factoring in a post-dilution forecast ROE of around 10%, the stock appears to have undergone an overcorrection. As for potential causes non-fundamental elements, this likely reflects concerns over the risk of failing to meet the TSE Prime Market continued listing criteria, specifically regarding the minimum market capitalization of tradable shares of JPY 10 bn.

Focus Point

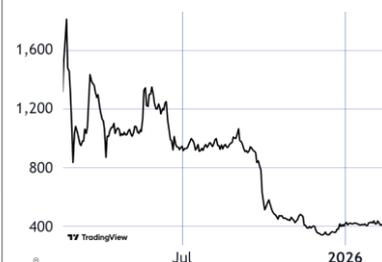
The FreeID service, which integrates with a wide range of facial recognition engines and consolidates fragmented facial recognition IDs onto a single platform, has the potential to become a game-changer in the fiercely competitive and fragmented facial recognition industry. Sustained expectations for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

Key Indicators

Share price (2/18)	405
52W/H (25/2/13)	2,200
52W/L (25/12/8)	337
10Y/H (25/2/13)	2,200
10Y/L* (21/1/21)	41
Shrs out. (1k shrs)	64,293
Mkt cap (JPY mn)	26,039
Enterprise Value(JPY mn)	55,198
25/12 Equity ratio	26.3
FY25/3 ROE (act)	12.9%
25/12 P/B	1.72x
FY26/3 P/E (CE)	18.1x
FY26/3 DY (CE)	2.10%

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

Daily Stock Price Chart (1Y)



Source: Trading view

JPY mn, %	Net sales	YoY	Operating Profit	YoY	Ordinary Profit	YoY	Net Profit	YoY	EPS (JPY)	DPS (JPY)
2023/3 C	37,259	5.9	2,919	32.2	2,518	31.3	1,576	29.5	26.99	5.00
2024/3 C	42,672	14.5	2,500	(14.4)	2,042	(18.9)	1,112	(29.4)	19.13	5.63
2025/3 C	51,709	21.2	2,713	8.5	2,121	3.9	1,390	25.0	23.79	7.00
2026/3 CE	60,000	16.0	3,000	10.6	2,250	6.0	1,370	(1.5)	22.40	8.50
2025/3 Q3 YTD	40,340	24.1	2,343	(4.1)	1,876	(12.0)	1,298	(7.6)	22.22	
2026/3 Q3 YTD	40,058	(0.7)	2,469	5.4	1,928	2.8	1,213	(6.5)	20.18	

Source: Compiled by SIR from the Company IR material. Note: A two-for-one stock splits of common stock were conducted on July 1, 2024, March 1, 2025, and June 1, 2025. EPS and DPS figures are split-adjusted. Figures may differ from the Company's material due to differences in SIR's financial data processing and the Company's reporting standards.

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Q3 FY2026/3 Results Review

■ Start of qualitative shift in operating profit confirmed

By business segment in Q3, the **DX Promotion Business**, the Company's growth engine, saw its sales increase 28.6% YoY to JPY 1,247 mn, driven by the expansion of the FreeiD to major developers, as well as additional revenue contributions from TeraWebCreate, Inc. and U-System Creation Inc., both acquired through M&A deals.

As the implementation base of FreeiD expands, the DX Promotion business is transitioning from a model that relied on one-time spot revenue at implementation, driven by sales of its solutions (facial recognition devices), to one that steadily builds recurring revenue. The Company notes that recurring revenue, including monthly usage fees, has started to accumulate at a pace of nearly JPY 10 mn per month. With FreeiD's recurring revenue carrying a high gross margin of 90–95%, the Company is solidifying a structure that enables it to clear the breakeven point early. Outside facial recognition, both order volume and order prices are also rising in the Digital Integration (DI) business. These factors combined drove the segment into the black, with Q3 segment profit coming in at JPY 164 mn and cumulative Q3 segment profit reaching JPY 81 mn.

This positive profitability came one year ahead of the Company's initial plan, which had projected profitability from FY2027/3. Overall, the Company has effectively accelerated the payback on its upfront investments. This clearly shows that its two pillars of DX Real Estate and DX Promotion have begun to mesh powerfully and pick up speed.

The **DX Real Estate business**, the Company's profit center, was expected to hit a lull in Q3 ahead of the concentration of newly built investment property deliveries in Q4, and the Company had projected lower sales and profit. However, selling prices for newly built investment properties tracked above expectations, and this in turn lifted prices for pre-owned properties, which contributed to profits. Besides, recurring revenue also underpinned profits, with the average occupancy rate exceeding 99% and the number of rental units under management rising by 779 units YoY to 7,038 units. The Company's focus on compact condominiums and the added value of standard FreeiD installation have directly contributed to higher customer satisfaction and differentiation. Additionally, DX Real Estate membership*, which the Company positions as the "core" of the DX Real Estate business, grew steadily, reaching 189,256 as the end of December 2025.

While company-wide net sales rose 0.7% YoY, operating profit fell 10.8% YoY to JPY 363 mn, but management believes the Company finished above plan on the back of an upswing in profitability in the DX Promotion business. In terms of finances, the Company bolstered its financial base by completing a third-party allotment of new shares among other measures, and is now moving to secure development sites (inventory assets) to fuel its next phase of growth. SIR views the results positively, as the Company achieved both improved profitability and greater financial soundness, with an equity ratio of 26.3% and a net D/E ratio of 1.87x at the end of Q3 following the capital increase, meeting its internal management benchmarks (25% and below 2.0x, respectively).

*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.

Segment Information

Segments	(JPY mn)	FY25/3	YoY	FY26/3	FY2025/3	FY2026/3	Change	FY25/3	FY26/3	YoY	FY25/3	FY26/3	YoY	FY25/3	FY26/3	YoY
		Act.	(%)	CE	3Q(9M)	3Q(9M)	(%)	Apr-Jun	Apr-Jun	(%)	Jul-Sep	Jul-Sep	(%)	Oct-Dec	Oct-Dec	(%)
DX Promotion	Net Sales	3,765	43.2		2,644	2,984	12.9	783	798	1.9	891	939	5.4	970	1,247	28.6
	Operating Profit	75	Turn		-56	81	Turn	(72)	(83)	-	25	0	-	(9)	164	Turn
	OP Margin	2.0%	Profit		-2.1%	2.7%	Profit	-9.3%	-10.4%		2.9%	0.0%		-1.0%	13.2%	Profit
DX Real Estate	Net Sales	48,071	19.8		37,771	37,194	-1.5	12,915	13,505	4.6	15,447	14,474	(6.3)	9,409	9,215	-2.1
	Operating Profit	3,863	0.4		3,136	3,287	4.8	1,095	1,325	21.0	1,349	1,430	6.0	691	532	-23.1
	OP Margin	8.0%			8.3%	8.8%		8.5%	9.8%		8.7%	9.9%		7.3%	5.8%	
Total	Net Sales	51,709	21.2	60,000	40,341	40,058	-0.7	13,671	14,272	4.4	16,330	15,378	(5.8)	10,340	10,408	0.7
	Operating Profit	2,713	8.5	3,000	2,343	2,469	5.4	792	975	23.1	1,143	1,131	(1.0)	408	363	-10.8
	OP Margin	5.2%		5.0%	5.8%	6.2%		5.8%	6.8%		7.0%	7.4%		3.9%	3.5%	

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.

**FY2026/3
The Company
Full-year Forecast****◆ Two upward revisions to earnings forecasts in one month**

After the market closed on December 15, the Company announced an upward revision of the FY2026/3 Company full-year earnings forecast and the implementation of shareholder benefits.

The Company has maintained its full-year net sales forecast at JPY 60,000 mn, up 16% from the previous year, but has revised its operating profit forecast upward by JPY 100 mm from the previous forecast (as of November 14), up 10.6% YoY to JPY 3,000 mn, ordinary profit upward by JPY 80 mn, up 6.1% YoY to JPY 2,250 mn, and net profit upward by JPY 50 mn, down 1.4% YoY to JPY 1,370 mn. The reasons for the upward revision include the fact that current business performance has progressed more strongly than previously anticipated, which was based on conservative earnings forecasts, and that profit recognition is progressing more smoothly than at the time of the previous forecast announcement. In particular, in the DX Promotion Business profitability has led to the outlook for positive business profit, continuing from the previous fiscal year. In light of these factors, the Company explained that this is the result of a comprehensive review of the sales strategy, personnel strategy, advertising strategy, etc. in the DX Real Estate Business, as well as the investment strategy, etc. in the DX Promotion Business.

Based on Q3 results, which showed stronger-than-expected progress in operating profit, the Company indicated that it is considering pushing back the delivery of some newly built properties originally scheduled for Q4 into the next fiscal year, to maximize project profits in the **DX Real Estate business**. This is the same earnings-smoothing measure it implemented a year earlier when it announced its Q3 FY2025/3 results, serving as a signal of conviction in the feasibility of achieving the full-year profit outlook mentioned above. Meanwhile, the Company must take into account negative factors such as soaring construction material prices and higher interest expenses. It estimates that the rise in material costs will account for approximately 10–15% of gross profit, as construction costs constitute about half of total cost of sales. With the rise in interest rates, the Company expects interest expense to increase by approximately JPY 30-40 mn in H2 compared to the same period a year earlier.

Under its basic policy of focusing on accelerated growth in the **DX Promotion business** by actively hiring personnel and executing M&A deals, the Company aims to expand sales centered on condominium-related FreeID sales, capture more digital integration projects, and expand its active DX-related project count. The Company classifies expenditures related to IT engineer recruitment, system development, and brand advertising as upfront investments, and plans to deploy approximately 70% of the funds raised through the new share issuance in these areas over the next two years.

Establishing an Organizational Structure

■ Second phase of group engineering reorganization

Effective January 1, 2026, the Company will integrate certain operations of its subsidiaries OmniScience Co., Ltd. and CBLab Inc. into Avant Corporation, a group company that provides system implementation and system consulting services. Specifically, it transfers their cloud integration businesses and parts of their system development and project management operations. Through this move, the Company further strengthens Avant’s business foundation.

The move aims to boost credibility by increasing Avant’s scale as a system integrator, which should also strengthen its position in hiring and support sales growth. At the same time, it is designed to raise productivity by optimizing engineer resource allocation, speeding up decision-making, and capturing synergies from the Group's AI and cloud technologies. In addition, the Company standardized HR systems and rules that had previously differed by company and consolidated the back-office functions of the three former companies, putting into action its idea of improving productivity per employee by enabling staff at the newly integrated company to focus on front-line work.

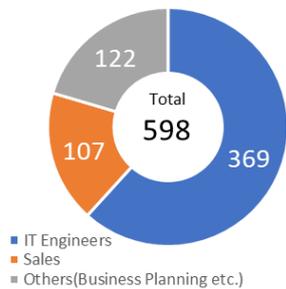
This is part of the Company’s ongoing efforts to strengthen human capital management and follows the Group reorganization last October, when it merged Berners Inc. and BEST PRACTICE Inc. to establish TIERO Inc.

■ Looking to expand headcount of engineers as well as sales personnel in the DX Promotion business

As shown in the exhibit, lower left on this page, the number of IT personnel has been steadily rising. With the increase in engineers, the number of companies supported under the DX Promotion business rose by 85 YoY to 278, while the number of active SI projects increased 6.8% YoY to 359.

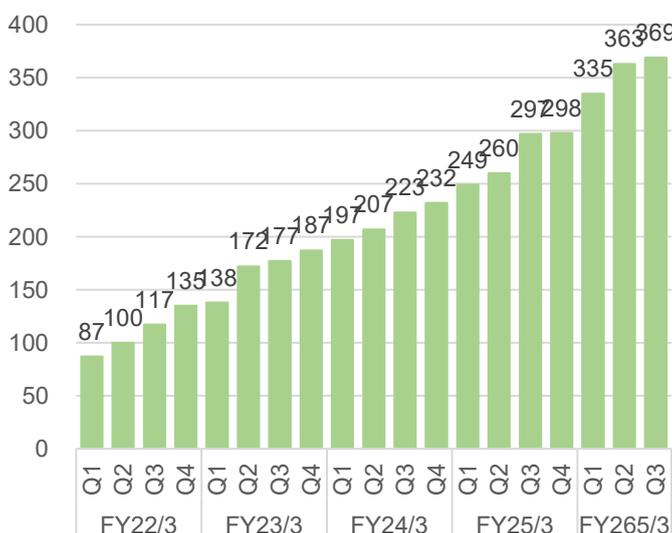
In addition to engineers, sales personnel also increased, rising from 99 a year earlier to 107 as of the end of 2025. The Management has positioned further enhancement of its sales function as a key priority for the next fiscal year as it works toward its ambitious target of JPY 110,000 mn in net sales in FY2029/3.

Group-wide job composition (as of the end of Dec 2025)



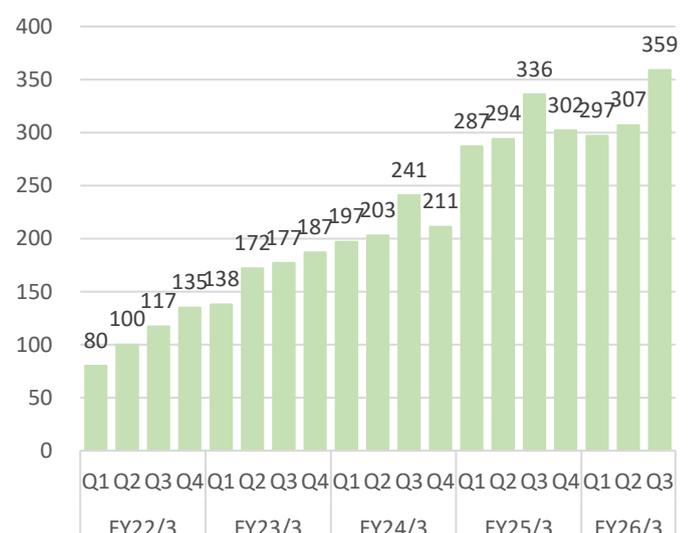
Source : Company IR material

The number of IT personnel to support DX (Persons)



Source : The Company IR material.

Number of active SI projects (Projects)



■ Accelerating efforts to bolster human capital management

The Company's short-term strategy centers on delivering rapid productivity gains through increased human resource allocation and organizational integration, while turning internal proof-of-concepts into external offerings to establish high-margin revenue streams.

First, in terms of hiring key personnel, the Company brought in an executive officer from outside effective January 2026. Following the group's subsidiary reorganization described above, the executive officer is responsible for standardizing the PDCA cycle of HR systems, sales processes, requirements definition, and delivery across multiple subsidiaries as well as leading cross-organization workflow integration to raise operating profit per employee. In addition, the executive officer is spearheading the early formulation of next fiscal year's KGI (Key Goal Indicator) for the Company's DX Promotion business. Based on interviews with the Management, SIR believes the Company is targeting sales growth of 15% or more in the Digital Integration business in FY2027/3 and roughly 30% in the facial recognition business.

To achieve its concept of becoming an AI Solution Provider Company, unveiled at the start of this fiscal year, the Company has already hired two consultants dedicated to AI solutions and continues its recruiting efforts. These consultants will take the lead in standardizing PoC templates and building a high-margin order intake structure. Specifically, the Company aims to package use cases proven internally at Property Agent, which operates the DX Real Estate business, such as automatically generating minutes from Zoom sales meetings and registering them into Salesforce, and to build a pricing and pre-sales framework that can win business-process efficiency PoCs using AI agents and generative AI at high gross margins of 50–60%. SIR believes that the Company is looking beyond this toward shifting its revenue model from conventional man-month based contracting to value-based external sales of solutions.

Recent Dynamics of FreeiD

*** 11 companies* adopting FreeiD as a standard feature**

- APEST Co.,LTD.
- FUDEAL CREATION Co., Ltd.
- MARIMO Co., Ltd.
- MUGEN ESTATE Co., Ltd.
- BRI Co.,Ltd.
- TOKYO MIRAI Co.,LTD.
- RecCon'S Co., Ltd.
- Blanc Shard Co., Ltd.
- BROAD JAPAN, Inc
- SENSE TRUST Co., Ltd.
- MIZUNO HOME Co., Ltd.

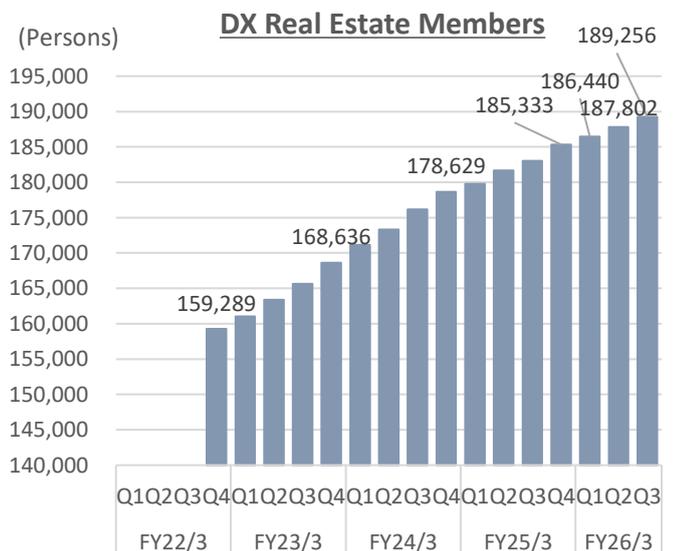
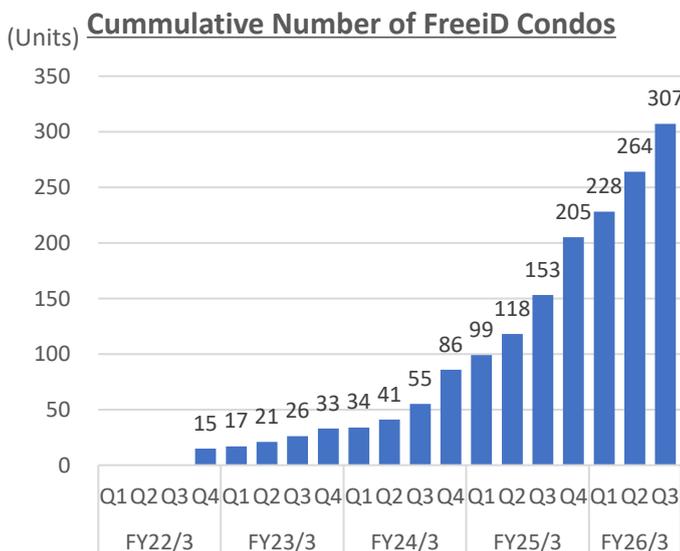
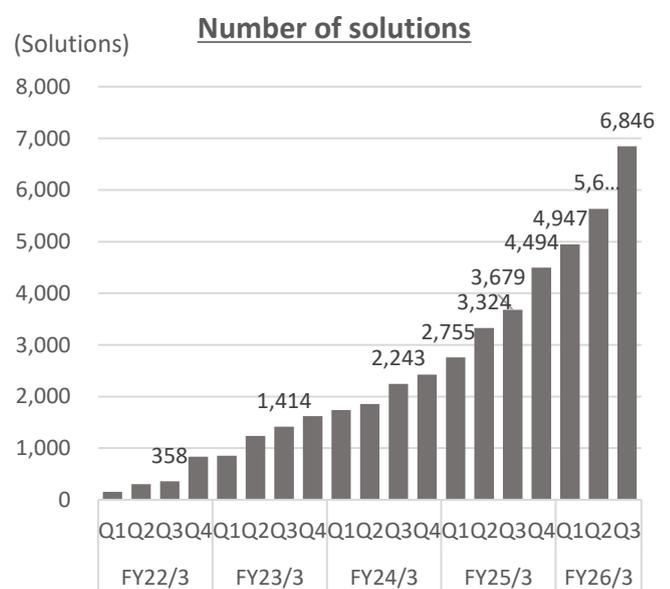
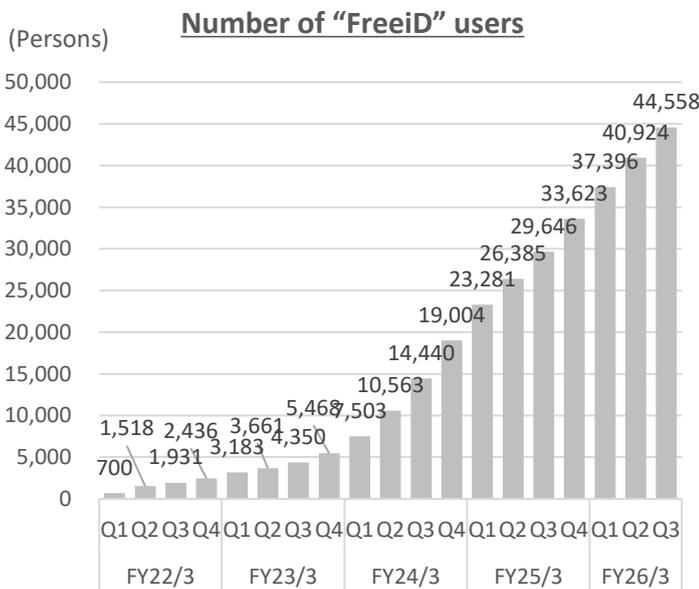
The Progress on the FreeiD Implementation Plan

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 around 1.5 x to 44,558 in the last 12 months, and the number of solutions (facial recognition devices) also increased nearly 1.9 x to 6,846 units.

The number of condominium developers adopting FreeiD as a standard feature has expanded to 11 companies* as of the end of January 2026. FreeiD is being deployed not only in condominiums for sale, but also in rental condominiums, detached houses, offices, hotels, and pilot smart city projects in collaboration with local governments.

The Smart Disaster Preparedness Experience Event held at the Azabu-Juban Shopping District in Minato Ward served as a proof-of-concept for **DX-enabled disaster preparedness**. In December 2025, the Company worked with a local government to run a trial deployment that used facial recognition for shelter check-in. By capturing evacuee information in real time and significantly reducing check-in time, it demonstrated that the approach can both ease administrator workloads and enable more accurate information management.



Source : The Company IR material.

FreeiD Implementation Status (December 2025 onward)—The progress is viewed positively

Date of disclosure	Disclosures regarding the implementation of FreeiD
2025 Dec. 9	Proof-of-concept of FreeiD at the Azabu-Juban Shopping District “Smart Disaster Preparedness Experience Event,” enabling accurate and rapid information management through “face-only evacuation shelter registration
Dec. 16	FreeiD introduced at Takara Leben’s Leben Kyoto Kawaramachi condominium, marking the first FreeiD Condominium Plus installation in Kyoto Prefecture
Dec. 25	FreeiD to be introduced at Grand Crea Miria City, marking its first adoption in a Tokai-region condominium
2026 Jan. 16	FreeiD introduced at GINBIS’ Tokyo head office, delivering a safer and more comfortable office environment with next-generation authentication technology
Jan. 29	FreeiD introduced at Kintetsu Real Estate’s high-end rental apartment K-COURT Tanimachi 4-chome, its first property to use all-unit facial-recognition access
Feb. 4	FreeiD introduced at Mitsubishi Estate Residence’s The Park Habio Nihonbashi Kayabacho, a next-generation rental residence designed to boost “time performance” in everyday living

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

Share Price Insights

■ Already undervalued, waiting for catalysts while making time correction

The Company’s share price weakened sharply following dilution from the equity financing, sliding to a 52-week low of JPY 337 on December 8. It subsequently recovered and have traded in a narrow range of roughly JPY 400–440 since the start of this year.

On a single-year earnings forecast basis, the valuation implied by the recent share price of JPY 405 (a closing price of February 18) stands at a forward P/E ratio of 18x based on the Company’s FY2026/3 forecast, a P/B ratio of 1.7x based on BPS of JPY 233 as of the end of December 2025, and an expected dividend yield of 2.10%. Even after factoring in a post-dilution forecast ROE of around 10% for FY2026/3, SIR believes that the stock appears to have undergone an overcorrection despite no deterioration in the outlook for its fundamentals.

If there were to be a negative factor that the equity market remains concerned about for the Company’s shares, it would be the risk of failing to meet the Tokyo Stock Exchange Prime Market continued listing criteria, specifically regarding the minimum market capitalization of tradable shares of JPY 10 bn, during the January to March 2026 period.

Based on discussions with the Management, the Company’s tradable share ratio has risen to 51% following the equity financing. Accordingly, the market capitalization required to meet the market capitalization of tradable share criterion is JPY 19,608 mn, which translates into a threshold share price of JPY 302 when divided by the total number of shares issued.

From a fundamental standpoint, upward earnings momentum is evident, and there are no apparent material negatives that would justify the share price falling below JPY 300 (13x PER; 1.3x PBR), in SIR’s view.

On the other hand, potential positive catalysts include news flow surrounding adoption and deployment of FreeiD by major-name developers and the Company’s participation in large-scale smart city projects becoming a concrete reality. These developments are likely to materialize eventually and are best viewed as a matter of time, suggesting that patiently waiting for that the time correction would be over may be the prudent approach for now.

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