MIGALO HOLDINGS | 5535 TSE Prime

Q1 Follow-up

Await Re-rating as Positive Catalysts Emerge

Summary

■ Q1 FY2027/3 results review

On August 6, MIGALO HOLDINGS Inc. (hereafter, the Company) announced its Q1 FY2027 (April–June) earnings results. Net sales increased 4.0% YoY to JPY 14,840 mn, and operating profit decreased 0.2% YoY to JPY 973 mn. Across the Group, fixed costs increased as the Company strengthened its growth foundation—primarily through personnel investments. As a result, the DX Real Estate reported a 9% YoY decline in segment profit, while the DX Promotion benefited from carryover projects from the prior year and began Q1 with a profit margin that exceeded the Company's internal expectations. Overall progress against the full-year forecast described below was broadly in line with the Management's expectation.

The number of condominium buildings implementing FreeiD, the Company's facial recognition platform service and a key growth driver, adopting the system increased to 423 as of the end of June 2026, up from 228 YoY. Including projects under construction and those in final contract negotiations, the pipeline of pre-construction opportunities reaches roughly 250. The Company also disclosed for the first time that it currently has 16 ongoing discussions or pipeline opportunities related to smart-city projects, including large-scale residential-commercial mixed-use projects.

■ Positioning of FY2027/3 as an "investment period"

The Company has left its full-year forecast for the FY2027/3 unchanged. The Company will sustain investment in the facial recognition business and, after factoring in higher construction material and financing costs, and projects full-year net sales to rise 13% YoY to JPY 65,000 mn, operating profit to increase 7.8% YoY to JPY 3,300 mn, ordinary profit to grow 4.4% YoY to JPY 2,450 mn, and net profit to increase 4.6% YoY to JPY 1,500 mn. The interim dividend remains JPY 3.00 and the year-end dividend is raised by JPY 0.50 to JPY 6.00, for an annual dividend of JPY 9.00.

■ Share price insights

On a single-year earnings forecast basis, the Company's shares trade at a forward P/E ratio of 12.2x, a P/B ratio of 1.2x, and a dividend yield of 3.16%. The stock appears to have undergone an overcorrection. Although the real estate sector is currently facing broad headwinds, the flow of positive catalysts—most notably FreeiD adoption announcements from major developers and participation in large-scale residential-commercial mixed-use projects—positions the stock as an investment opportunity with meaningful upside potential.

JPY mn, %	Net sales	YoY	Operating Profit	YoY	Ordinary Profit	YoY	Net Profit	YoY	EPS (JPY)	DPS (JPY)
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 C	**57,532**	11.3	**3,061**	12.8	**2,347**	10.6	**1,434**	3.1	**23.44**	**8.50**
2027/3 CE	**65,000**	13.0	**3,300**	7.8	**2,450**	4.4	**1,500**	4.6	**23.33**	**9.00**
2026/3 Q1	14,272	4.4	975	23.1	781	16.9	499	38.8	8.54	
2027/3 Q1	**14,840**	4.0	**973**	(0.2)	**771**	(1.2)	**537**	7.5	**8.36**	

Source: Compiled by SIR from the Company IR materials. 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 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 (9/2)	285
52W/H (25/9/3)	1,067
52W/L (26/6/25)	243
10Y/H (25/2/13)	2,200
10Y/L* (21/1/21)	41
Shrs out. (1k shrs)	64,304
Mkt cap (JPY mn)	18,327
Enterprise Value(JPY mn)	46,498
CY26/6 Equity ratio	26.7%
FY26/3 ROE (act)	10.9%
CY26/6 P/B	1.20x
FY27/3 P/E (CE)	12.2x
FY27/3 DY (CE)	3.16%

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

Daily Stock Price Chart (1Y)

Source: Trading view

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Q1 FY2027/3 Results Review

*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 Promotion Business breaks seasonality, starts in the black

The **DX Promotion business**, the Company's growth engine, saw its sales increase 46.5% YoY to JPY 1,169 mn and its segment profit reached to JPY 102 mn, turned from loss of JPY 83 mn, a year ago, driven by the expansion of the FreeiD to major developers, as well as continuing new project acquisitions in digital integration.

- Although Q1 typically sees a weak revenue as clients plan their annual budgets, this year ongoing projects carried over from the prior year were already well consolidated, and Q1 sales exceeded for the first time the JPY 1.0 bn—roughly the quarter's breakeven threshold. On the cost side, consolidated subsidiary DXYZ Co., Ltd., which operates FreeiD, kept actual expenditures below the generously budgeted amounts. The Company recorded its first positive OP profit in Q1 (roughly JPY 100 mn), a notable milestone.
- According to the Management, an externally recruited executive who joined consolidated subsidiary TIERO Inc. in January 2026 took the initiative and materially expanded orders in the Digital Integration (DI) business. In addition, TeraWebCreate, Inc. (TWC), which became a consolidated subsidiary in May 2025, has been an earnings performance driver—its deployment of the Salesforce enterprise autonomous AI-agent platform "Agentforce" reached one of the highest adoption levels in Japan.
- The YoY increase in the DX Promotion Business segment profit for Q1 (+JPY 185 mn) was driven roughly one-third each by: M&A-driven incremental profit (TWC and USC acquisitions), growth in the existing DI business, and expansion of FreeiD. Note that U-System Creation Inc. (USC) was consolidated in September of last year; consequently, the incremental growth rate attributable to M&A (including TWC) will moderate from the H2 onward, although the absolute contribution is expected to be maintained.

The **DX Real Estate business**, the Company's profit center, performed steadily as rental growth supported demand for investment properties, with net sales rising 1.5% YoY. The proportion of higher-margin (approximately 20% gross margin) new-build sales increased, lifting overall company gross profit. However, fixed costs rose as the Company strengthened its human resources to support future growth, and segment profit therefore declined 9% YoY. The Management reports that this outcome was broadly within plan.

- To increase sales capacity, the Company has been actively expanding its sales representatives through both new-graduate and mid-career hiring; roughly half of the 41 new graduates who joined in April were assigned to the DX Real Estate business.
- Under the CHRO's leadership, the Company is standardizing training and development programs and setting time-bound KPIs (for example, "targets at six months and/or one year") to accelerate early productivity for new hires.
- DX Real Estate membership*, which the Company positions as the "core" of the DX Real Estate business, grew steadily, reaching 193,049 as the end of June 2026.

Segment Information

Segments	(JPY mn)	FY26/3 Act.	YoY (%)	FY27/3 CE	FY26/3 Apr-Jun	FY27/3 Apr-Jun	YoY (%)
DX Promotion	Net Sales	4,479	19.0		798	1,169	46.5
	Operating Profit	366			(83)	102	Turn Profit
	OP Margin	8.2%			-10.4%	8.7%	
DX Real Estate	Net Sales	53,247	10.8		13,505	13,714	1.5
	Operating Profit	4,241	9.8		1,325	1,206	(9.0)
	OP Margin	8.0%			9.8%	8.8%	
Total	Net Sales	57,532	11.3	65,000	14,272	14,840	4.0
	Operating Profit	3,061	12.8	3,300	975	973	(0.2)
	OP Margin	5.3%		5.1%	6.8%	6.6%	

Source : Compiled by SIR from the Company IR materials.

FY2027/3 The Company Full-year Forecast

■ **Positioning of FY2027/3 unchanged as an "investment period"**

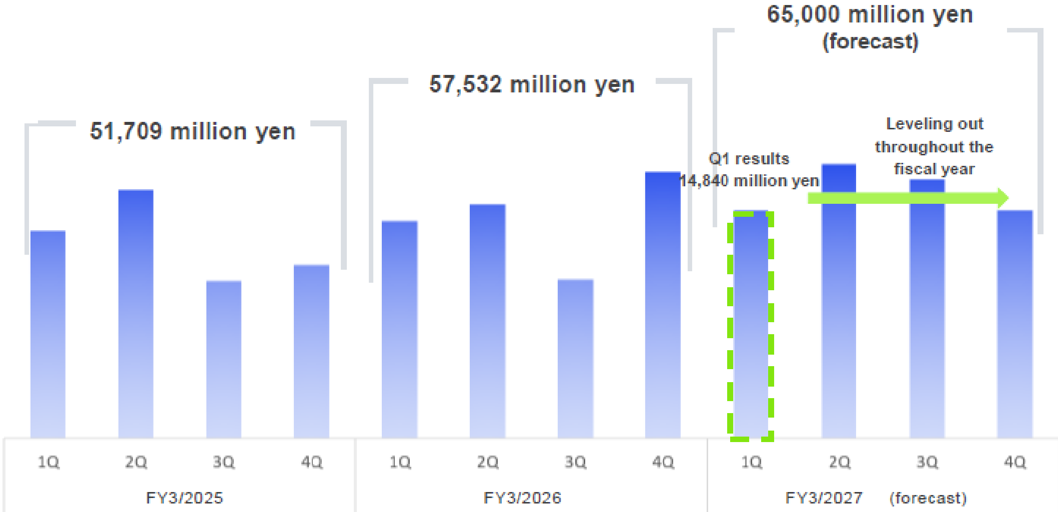
The Company projects net sales to rise 13% YoY to JPY 65,000 mn, operating profit to increase 7.8% YoY to JPY 3,300 mn, ordinary profit to grow 4.4% YoY to JPY 2,450 mn, and net profit to decrease 4.6% YoY to JPY 1,500 mn. The Company has not disclosed earnings forecasts by segment.

The **DX Real Estate business** saw a concentration of new-build handovers in Q1 due to carryover from the prior fiscal year; conversely, Q4 is expected to have fewer new-build handovers. To maximize project profitability (securing rental income, selling with tenants in place, etc.), the Company has made minor adjustments to the sales schedule to smooth the timing of handovers. Buy-and-resell activity for resale properties is expected to remain robust. Meanwhile, the supply chain for oil-derived construction materials has tightened relative to the prior year, creating the property sector-wide risks that could prompt price revisions or order restrictions by material manufacturers from early summer through autumn. The Management says that, while there is currently no indication of multi-month delays to new-build completions, the sales schedule has been planned on the assumption that any modest slippage can be absorbed in Q4, and therefore downside to the Company's earnings outlook should be limited if sales proceed as planned.

The BoJ raised its policy rate by 25 bps to 1.00% on June 16. The Company estimates the incremental annual interest expense at roughly JPY 100 mn; or roughly JPY 70 mn over the remaining nine months period of the fiscal year. The Management states that a certain degree of rate increases was already assumed at the beginning of the fiscal year and that the full-year plan has reflected this impact.

In the **DX Promotion business**, top-line is expected to be driven by continued expansion of FreeiD in the condominium market, rising new orders for digital integration services, and an increase in active DX system-development projects. The Management expects double-digit growth for FreeiD-related sales. At the same time, the Company has budgeted an incremental cost increase of approximately JPY 100–200 mn in the initial plan to bolster FreeiD-related marketing and hiring; accordingly, it is conservatively forecasting segment profit of roughly JPY 150–200 mn at the outset. These expenditures are treated as up-front investments—covering IT engineer recruitment, system development and brand advertising—and the Company intends to deploy about 70% of the proceeds from the September 2025 equity finance over the next two years to fund them; therefore, a temporary stagnation in segment profit YoY is not surprising. The Management's strategic view is that the payback from these investments will begin to materialize in FY2028/3, driving a step-change in the DX Promotion segment's earnings.

Quarterly consolidated net sales – historical results and the Company projection



Source : The Company IR materials.

New Developments in DX Promotion Business

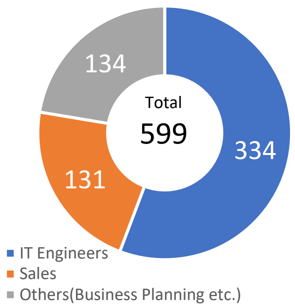
■ Accelerating the transition to a value-added business model leveraging AI

The number of IT personnel decreased from 342 at March 31, 2026 to 334 as of June 30, 2026, despite onboarding roughly 20 new graduates in April. The Management attributes the decline to a deliberate hiring shift: the Company is tolerating voluntary attrition among staff who cannot be reskilled for AI, while prioritizing recruitment of mid-to-senior-level talent (project leaders and project managers) and restricting hires of engineers below a defined skill threshold. The Management's view is that low-value, labor-intensive roles will be replaced by AI within the next one to two years. Accordingly, the Company is explicitly transitioning from a headcount-driven revenue model to a value-added model that focuses on raising productivity and value per-employee.

More importantly, through redeployment of underutilized personnel and M&A driven gains, the number of client companies supported by the DX Promotion business increased by 308 YoY to 524, while the number of active SI projects surged 1.5-fold to 461. These developments demonstrate a clear improvement in per-capita productivity.

Group-wide job composition

(as of the end of Jun 2026)

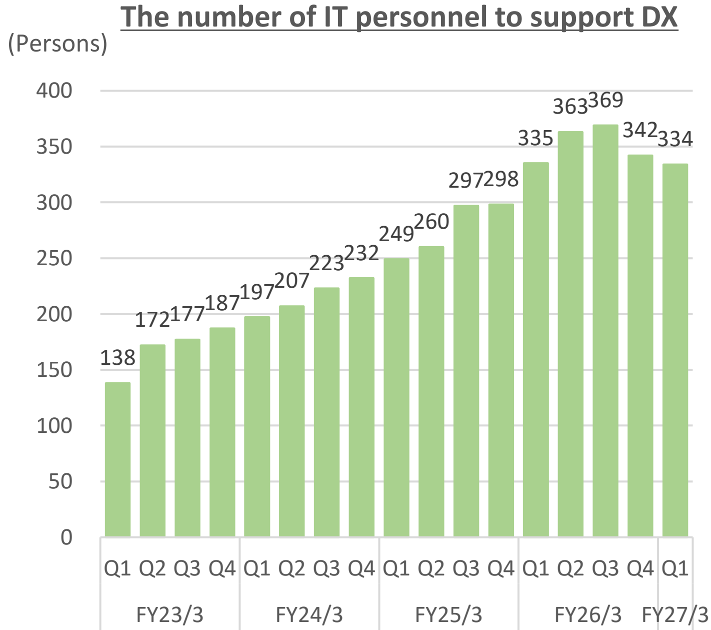


Source : Company IR materials

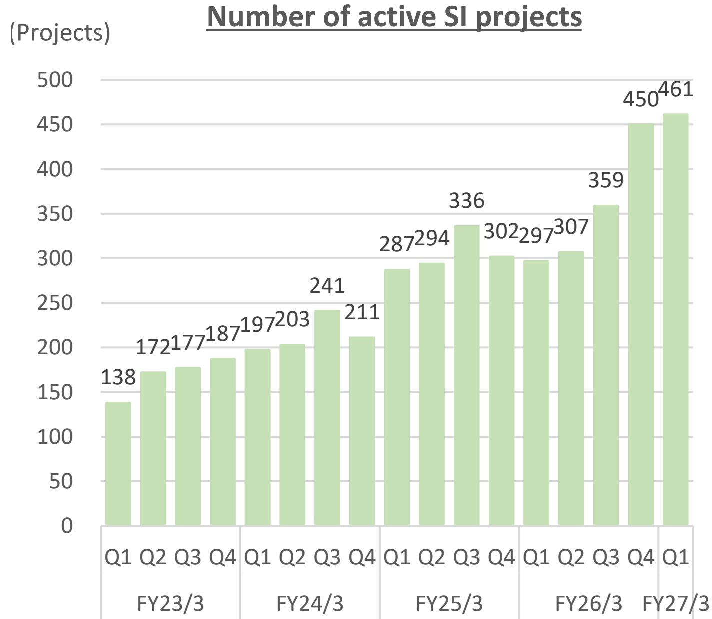
In addition to building a structure that can grow revenue through generative AI even with a stable headcount, the Management disclosed the following near-term initiatives:

- **Customer Success (CS)** : A CS team was newly established to maximize lifetime value (LTV) for the Company's strategic FreeiD business. The team will support growth by delivering post-implementation performance reports, collecting customer feedback, and preparing materials to facilitate internal approvals at developer clients—thereby increasing repeat orders from existing developers.
- **Key-account strategy** : The Group's consolidated subsidiaries—Avant Corporation, TIERO, TWC, and USC—collectively offer multiple capabilities (AWS, CRM, AI, core systems, etc.). When one group company secures a core-system contract, the Group can pursue adjacent work for large clients across the entire group "band," enabling value propositions that are difficult for mid-tier SIers to replicate.
- **Branding as an SI group originating from an operating company** : By commercializing DX know-how proven in the field by PROPERTY AGENT, Inc. the Company aims to differentiate itself from conventional Siers. The Company plans a UI refresh, including the careers/recruiting pages, by the end of September and intends to present the new strategic positioning at the Q2 results announcement in November.

The number of IT personnel to support DX



Number of active SI projects



Source : The Company IR materials.

Recent Dynamics of FreeiD

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

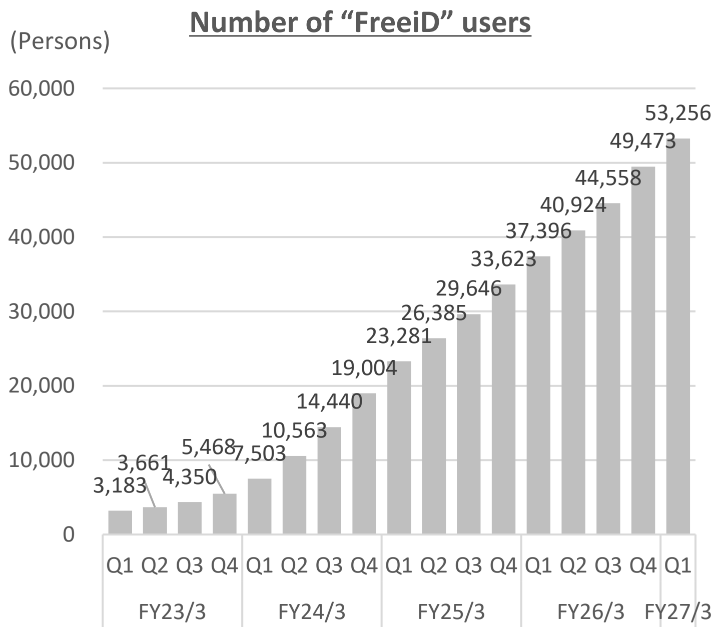
- APEST Co.,LTD.
- FUDEAL CREATION Co., Ltd.
- MARIMO Co., Ltd.
- MUGEN ESTATE Co., Ltd.
- BRI Co.,Ltd.
- TOKYO MIRAIS CO.,LTD.
- RecCon'S Co., Ltd.
- Blanc Shard Co., Ltd.
- BROAD JAPAN, Inc
- SENSE TRUST Co., Ltd.
- MIZUNO HOME CO., Ltd.
- Azplanning Co., Ltd.

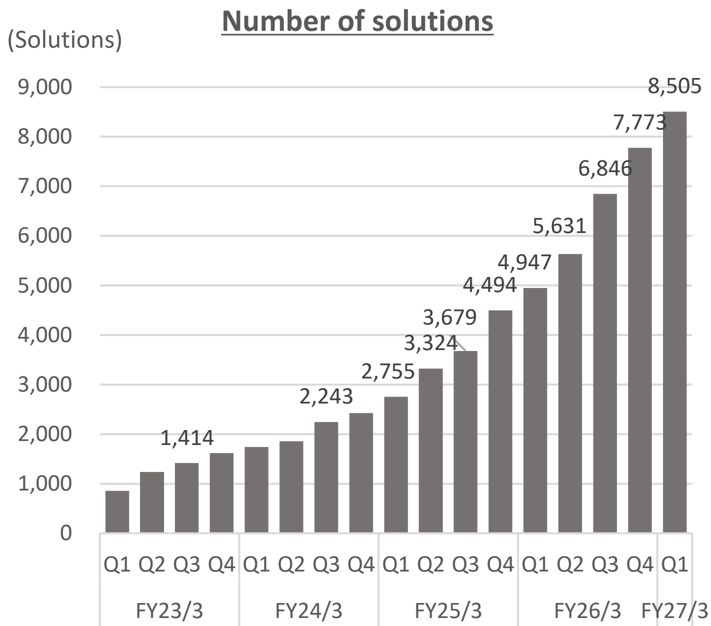
■The Progress on the FreeiD Implementation Plan

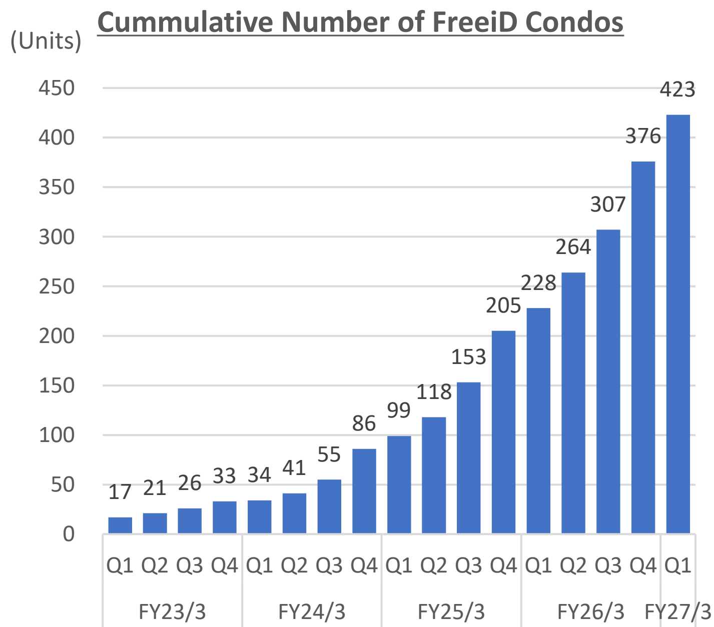
The promotion of FreeiD involves implementing it to condominiums, offices, nurseries, and construction sites, etc., as well as using the facial recognition ID platform for payments and collaboration with local governments.

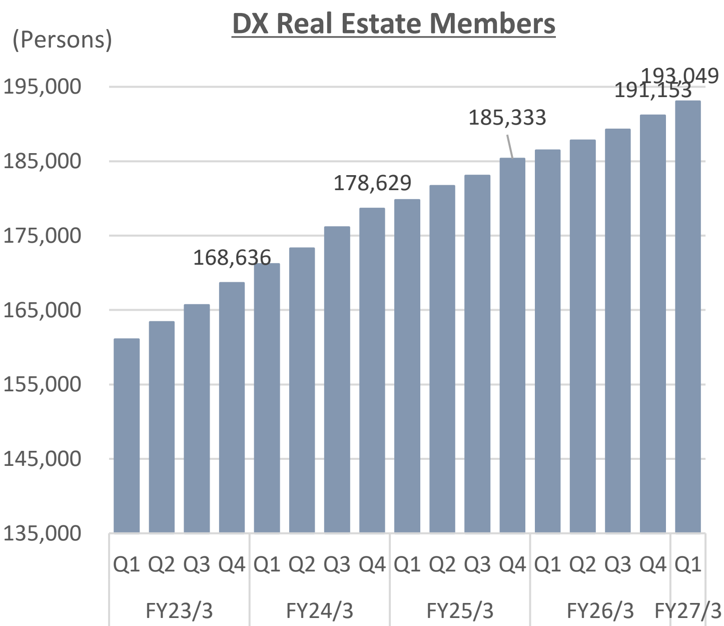
The number of FreeiD users grew around 1.4x to 53,256 in the last 12 months, and the number of solutions (facial recognition devices) also increased around 1.7x to 8,505 units.

The number of condominium developers adopting FreeiD as a standard feature has expanded to 12 companies* as of the end of June 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.









Source : The Company IR materials.

FreeiD Implementation Status (May 2026 onward)—The progress is viewed positively

Date of disclosure		Disclosures regarding the implementation of FreeiD
2026	Jun. 11	FreeiD introduced for the first time at Mitsui Fudosan Residential's Park Homes Funabashi condominium.
	Jun. 18	FreeiD selected for installation at MARIMO Co., Ltd.'s condominium Connect Garden Hiroshima Gion.
	Jul. 14	FreeiD provided on a trial basis at the 84th Waseda vs. Keio Univercity basketbal lregular match
	Jul. 30	FreeiD introduced for the first time at ARCOBALENO BUBAIGAWARA, a condominium developed by RENOSY Ricordi.

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

Although the Company cleared the TSE Prime Market maintenance threshold of a tradable share market capitalization of JPY 10.0 bn for Jan–Mar 2026, its share price declined following the FY2026/3 full-year results announcement. From the May 12 close of JPY 297, the stock fell to a 52-week low of JPY 243 on June 25, then recovered to JPY 293, but has not yet reclaimed the May 12 closing level. SIR views this as at least partly driven by investor disappointment with the Company's profit-growth guidance for FY2027/3 and shareholder-return plans.

On a single-year earnings forecast basis, the valuation implied by the recent share price of JPY 285 (a closing price of September 2) stands at a forward P/E ratio of 12.2x based on the Company's FY2027/3 forecast, a P/B ratio of 1.2x based on BPS of JPY 238 as of the end of June 2026, and an expected dividend yield of 3.16%. Taking into account the Company's ongoing, dramatic shift in business structure and its move toward a business model that builds high-margin recurring revenue protected by patents, SIR thinks the share should be undervalued, even after factoring in an expected ROE of about 10% for FY2027/3.

Near-term headwinds are strong and common to the real-estate sector — supply-chain risks such as price revisions for some construction materials driven by geopolitical factors, plus interest-rate upside risk. In the Company's case, however, risk management is thorough via manufacturer monitoring and updates to yield and rent-sensitivity scenarios. Indeed, as demonstrated by transactions at other properties that achieved rents above local market levels, the digital value-add appears to function as a powerful buffer that offsets the risk of rising property input costs.

On the other hand, potential positive catalysts include announcements of FreeiD adoption and deployment by major-name developers and the Company's participation in large-scale residential-commercial mixed-use projects becoming a concrete reality. SIR views these as largely a matter of timing rather than if.

Therefore, SIR believes the recent depressed valuation — caused by noise around the current conservative earnings outlook assumptions — implies more upside than downside, and thus represents an exceptionally attractive entry opportunity for investors focused on medium- to long-term corporate value appreciation.

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