

# MIGALO HOLDINGS | 5535 TSE Prime

1Q Follow-up

## Upward revision of interim dividend reflects confidence in the progress of FreeiD implementation

### ◆ 1Q FY2025/3 results review

On August 7, 2024, Migalo Holdings Inc. (hereafter, the Company) announced its 1Q FY2025/3 earnings results. Sales declined 10.6% YoY to ¥13,671 mn, and operating profit fell 56.9% YoY to ¥792 mn. The declines in both sales and profit were anticipated, primarily due to the concentration of new property deliveries in the DX Real Estate business during the same period last year. However, sales of pre-owned properties exceeded the Company's forecasts. The Company also announced an increase to its first interim dividend this fiscal year, raising it by ¥2 from the initial plan to ¥12 per share. Combined with the planned year-end dividend per share of ¥14, the total annual dividend per share is projected to be ¥26.

The FreeiD facial recognition platform service, which is the Company's key growth driver, has seen substantial expansion. The number of buildings (condominiums) utilizing FreeiD increased from 34 at the end of June last year to 99 by the end of this June, surpassing 100 buildings in July. FreeiD buildings are now present in 12 prefectures in Japan, while the Company's active PR and IR efforts have further enhanced the recognition and reputation of FreeiD.

### ◆ Full-year FY2025/3 earnings forecast

The Company left its full-year forecast unchanged, with net sales of ¥50,000 mn (+17% YoY), operating profit of ¥2,600 mn (+4% YoY), ordinary profit of ¥2,100 mn (+3% YoY), and net profit of ¥1,250 mn (+12% YoY). With regard to the roughly flat profit forecast, the management team commented, "We continue to position this fiscal year as an 'investment period' and are in a sales growth phase, including for the DX Promotion business". That said, SIR believes that the announcement of a dividend increase just five months into the fiscal year could suggest the possibility of an upward revision to the full-year earnings forecast.

### ◆ Share price insights

Ahead of the July stock split, the Company's share price rose sharply in June, reaching an all-time high on the back of significant increases in trading volume. However, after going ex-rights, the stock declined sharply, possibly due to the unwinding of excessive speculative positions, returning to the same level as March before the price surge started. During this period, abnormal spikes in price volatility stood out. The release of 1Q earnings results and the upward revision to the interim dividend seem to have reassured the market on the outlook, with share price movements as of late broadly reflective of fundamentals, based on SIR's views. The recent share price, which has returned to March levels, indicates the Company's PBR and PER are the lowest among

Y mn, %	Net Sales	YoY	Operating Profit	YoY	Ordinary Profit	YoY	Net profit	YoY	EPS	DPS
2021/3 C	27,524	21.4	2,093	9.9	1,791	15.9	1,170	22.5	80.86	13.00
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	42,672	14.5	2,500	(14.4)	2,042	-18.9	1,112	(29.4)	76.50	22.50
2025/3CE	50,000	17.2	2,600	4.0	2,100	2.8	1,250	12.3	85.65	26.00

Source: Compiled by SIR from the company IR material. EPS and DPS figures are split-adjusted.



#### Focus Point

The FreeiD service, which integrates with and supports a wide variety of facial recognition engines and enables the management of fragmented facial recognition IDs on a single platform, could be "a game-changer" for the facial recognition-related business in the state of "rivalry of local warlords". The chances of a share price rerating will grow if these expectations persist.

#### Key Indicators

Share price (8/21)	1,340
YH (24/6/7)	2,655
YL (24/1/15)	681
10YH (21/6/15)	2,655
10YL* (21/1/21)	164
Shrs out. (1k shrs)	14,688
Mkt cap (¥mn)	19,682
Equity ratio (24/6)	19.9%
FY24/3 P/B (act)	1.89x
FY25/3 P/E (CE)	15.6
FY24/3 ROE (act)	11.2%
FY25/3 DY (CE)	1.94%

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

#### Daily Stock Price Chart Since Oct.2023



Source: Trading view

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industry peers, even as peers pay no dividend. With a roughly 2% dividend yield, the Company's stock appears attractive and undervalued.

It is also looking at various options to meet the criteria for maintaining the TSE Prime market, the market capitalization of the tradable shares of over ¥10 bn. SIR continues to anticipate that resolving "Information Asymmetries" will lead to a rerating of the Company's share price.

## 1Q FY2025/3 Results Review

### ■ Summary: progress exceeds initial forecasts

By business segment, the DX Promotion Business, which is the Company's growth engine, saw its sales increase by nearly 50% YoY, driven by the expansion of the facial recognition platform service (FreeiD) to major developers, as well as new project acquisitions in cloud integration. This resulted in the highest quarterly sales in the Company's history. On the other hand, the Company's aggressive hiring of human resources and other upfront investments led to a significant increase in expenses, resulting in the largest quarterly operating loss on record, although the results were generally in line with the initial forecast.

In the DX Real Estate Business, which is the Company's profit center, operating profit was halved from the high level achieved in the same period of the previous year. However, the purchase and resale of pre-owned properties was stronger than expected, exceeding initial plans. Despite the low profit margin, the number of transactions for pre-owned condominiums for investment increased by 64 units YoY, reaching 208 units. The Company confirmed that this was not due to the early recognition of properties scheduled for sale in 2Q or later, but rather, evidence that the favorable sales environment in the real estate market is continuing to outperform expectations.

As a result, the progress rate of 1Q results against the Company's initial forecasts was 27.3% for net sales, 30.5% for operating profit, 31.8% for ordinary profit, and 28.8% for net profit, all exceeding the simple benchmark level of 25%.

In addition to the strong performance, the management team, increasingly confident in the continued expansion of FreeiD in 2Q and beyond, decided to revise the interim dividend for the end of September upward following the announcement of 1Q results.

### Segment Information

Segments	(¥ mn)	FY2023/3	FY2024/3	Change (%)	FY2025/3 CE	2023/3 Jan-Mar	2024/3 Jan-Mar	Change (%)	2024/3 Apr-Jun	2025/3 Apr-Jun	Change (%)
DX Promotion	Net Sales	1,799	2,629	46.1	0	592	757	27.9	524	783	49.3
	Operating Profit	51	(101)	Turn red	0	26	(52)	(300.0)	-49	(72)	-
	OP Margin	2.8%	-3.8%		0.0%	4.4%	-6.9%		-9.4%	-9.3%	
DX Real Estate	Net Sales	35,639	40,130	12.6	0	10,827	9,428	(12.9)	14,768	12,915	(12.6)
	Operating Profit	4,302	3,848	(10.6)	0	1,096	497	(54.7)	2,209	1,095	(50.4)
	OP Margin	12.1%	9.6%		0.0%	10.1%	5.3%		15.0%	8.5%	
Total	Net Sales	37,259	42,672	14.5	50,000	11,375	10,160	(10.7)	15,289	13,671	(10.6)
	Operating Profit	2,919	2,500	(14.4)	2,600	653	57	(91.3)	1,835	792	(56.9)
	OP Margin	7.8%	5.9%		5.2%	5.7%	0.6%		12.0%	5.8%	

Source: Compiled by SIR from the Company IR material.

**FY2025/3  
The Company  
Full-year Forecast****■ Positioning FY2025/3 as an “investment period”**

Migalo Holdings projects net sales to rise 17% YoY to ¥50,000 mn, operating profit to increase 4% YoY to ¥2,600 mn, recurring profit to grow 3% YoY to ¥2,100 mn, and net profit to increase 12% YoY to ¥1,250 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 emphasized that 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 ¥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, and the Company plans to wait on making the business profitable. In the DX Real Estate business, while the total number and prices of properties for sale remain strong, the Company is anticipating rising construction costs, and is conservatively planning for company-wide total profit to remain flat compared to the previous year.

The management team commented, “We continue to position this fiscal year as an ‘investment period’ and are in a sales growth phase, including for the DX Promotion business”.

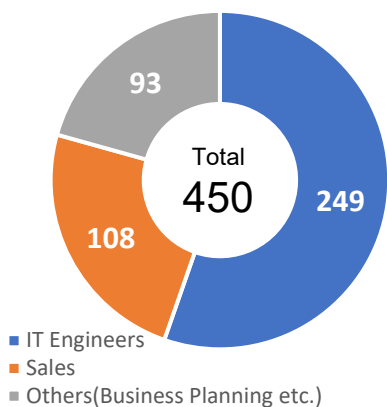
With that being said, SIR believes that the announcement of a dividend increase just five months into the fiscal year could hint that there is room for a potential upward revision to the full-year earnings forecast.

■ Continuing to hire additional IT engineers in DX Promotion business

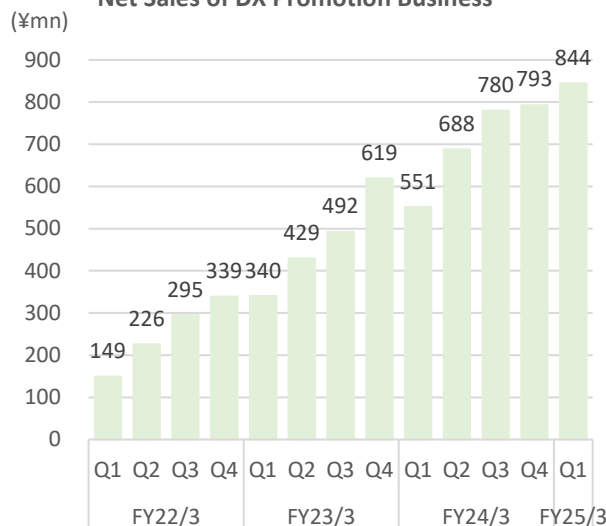
Migalo Holdings made OmniScience Co., Ltd. a subsidiary in March 2024. In addition to group-wide new graduate hiring (hired approximately 30 new graduates in April 2024), the Company is also actively recruiting for mid-career hires. As shown in the charts below, The number of IT personnel has been steadily rising, which has contributed to an increase in the number of companies supported to a total of 174, up by 69 from the previous year. Active SI projects also hit a record high of 287 (+46% YoY).

In order to reach the sales target of ¥5,000 mn for the DX Promotion Business by FY2027/3, the Company aims to secure around 410 IT engineers in total, based on dividing the sales target by the current sales per engineer (¥12.2 mn in FY2024/3). This represents an increase of around 160 engineers from current levels, which the Company plans to achieve by hiring over 50 engineers per year, including through M&A. Given that IT personnel increased by about 50 in the twelve months leading up to June 2024 (from 197 to 249), this pace appears feasible. However, a concern would be that the industry-wide shortage and competition for IT engineers could drive up personnel costs through higher compensation and incentives, potentially straining the Company’s budget.

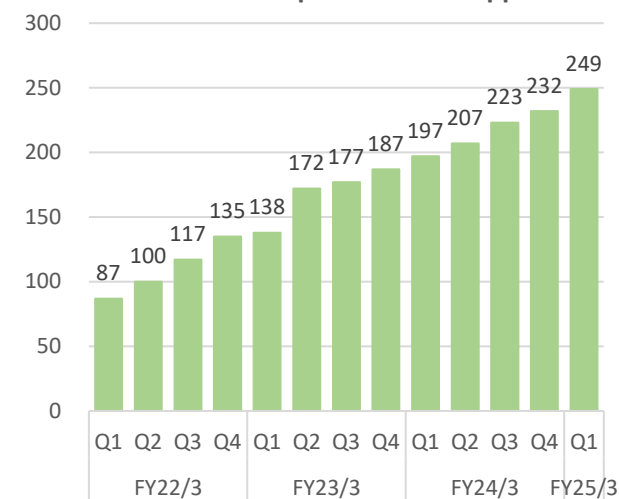
Group-wide job composition (as of the end of 2024/6)



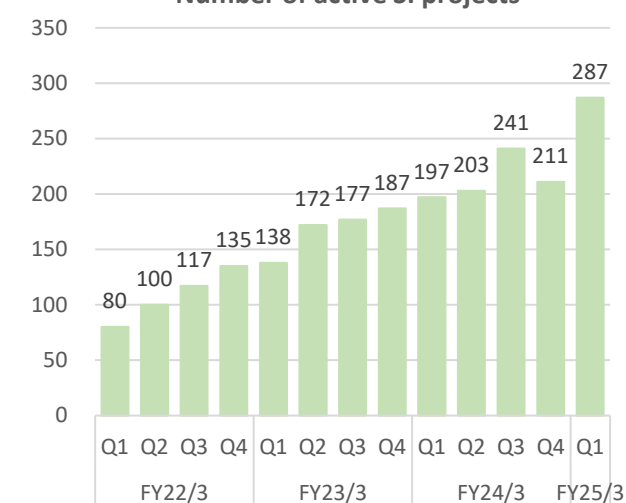
Net Sales of DX Promotion Business



Number of IT personnel to support DX



Number of active SI projects



Source: Compiled by SIR from the company IR material.

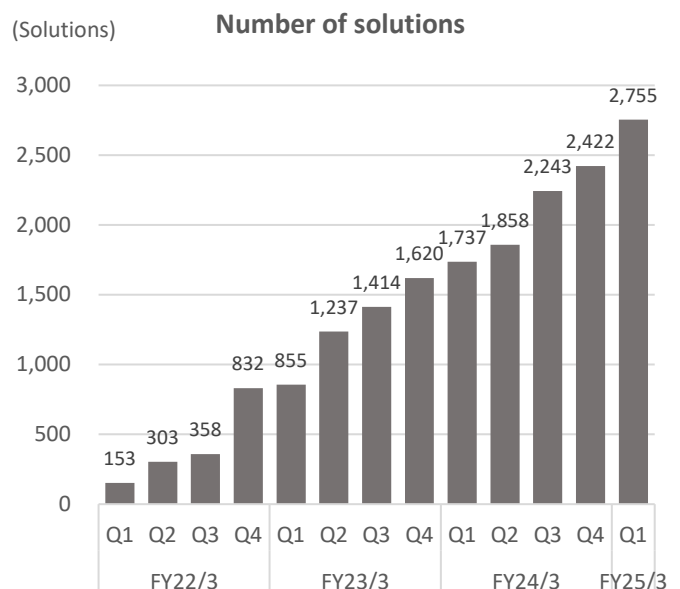
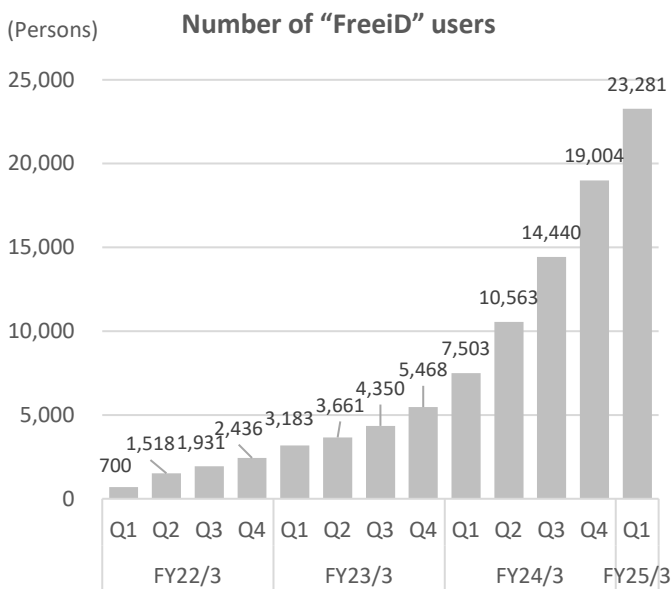
■ The Progress on the FreeiD Implementation Plan

The promotion of FreeiD involves implementing it to apartments, 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 3.1 times to 23,281 in the last twelve months, and the number of solution (facial recognition devices) also increased 1.6 times to 2,755 units.

The Company does not disclose the exact sales figures for FreeiD (including one-off sales of solutions and recurring monthly fees). However, its website reports a “3.8-fold increase” for the April to June period compared to the same period last year. Although it has not yet reached the break-even point, profitability should be on the horizon as the Company gradually gains users and solution devices by increasing the number of FreeiD installation contracts and sales partnerships.

As shown below, the Company is also actively promoting FreeiD beyond real estate properties, through partnering with companies from other industries as well as local governments. Most recently, the Company signed a "Future Co-Creation Partnership Agreement" with the town of Kamikawa in Hokkaido, launching a pilot project aimed at solving social issues. This is the second such initiative, following a similar project in Kameoka City, Kyoto Prefecture, marking another step forward in the preparation to monetize the smart city concept.



Source: Compiled by SIR from the company IR material.

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

Date of disclosure	Disclosures regarding the implementation of FreeiD
2024 Apr. 3	FreeiD is installed for the first time in three condominiums in Japan owned by NIPPON REIT Investment Corporation
Apr. 16	DXYZ and Tokyo Boeki Group's TB-eye Ltd. enter into business tie-up, making the FreeiD facial recognition platform available for use with approximately 1 million existing security cameras nationwide
Apr. 18	DXYZ and YUASA TRADING Group sign distributor agreement for FreeiD
Apr. 23	FreeiD is packaged with Mitsubishi Estate's comprehensive smart home service HOMETACT, and joint sales begin
May. 14	DXYZ and Shin Nihon Power Supply begin business tie-up to sell FreeiD
2024 May. 28	FreeiD is confirmed for use in Wada Corporation's "Royal Garden City Gakunan-cho", achieving the first "All Facial Recognition Property" in Okayama prefecture
Jun. 5	FreeiD is confirmed for use in Keihan Real Estate's "THE TOWER HIRAKATA", achieving the first "All Facial Recognition Property" in a rental tower condominium in the Kansai area
Jun. 6	FreeiD is first implemented in Nomura Real Estate Development's "PROUD FLAT Kiyosumi Street"
Jun. 11	FreeiD is implemented in Daiichi Kotsu Sangyo's "Grand Place Kurosaki Marks Tower". achieving the first newly built condominium for sale in the Kyushu area
Jun. 25	DXYZ signed a "Future Co-Creation Partnership Agreement" with the town of Kamikawa in Hokkaido, aimed at solving social issues. -Efforts to build a platform through Public-private partnerships utilizing facial recognition technology -

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

The number of condominiums with FreeiD installed increased from 34 buildings at the end of FY2023/6 to 99 buildings at the end of FY2024/6., and the construction of new properties that decided to install FreeiD one to two and a half years ago are now being completed one after another. The Company currently has order backlog of more than 200 buildings, and in addition to additional orders from major developers, new orders from mid-tier developers that decided to implement FreeiD as a standard feature appear to be picking up steam.

■ **Securing profitability in the DX Real Estate business by balancing favorable and unfavorable conditions**

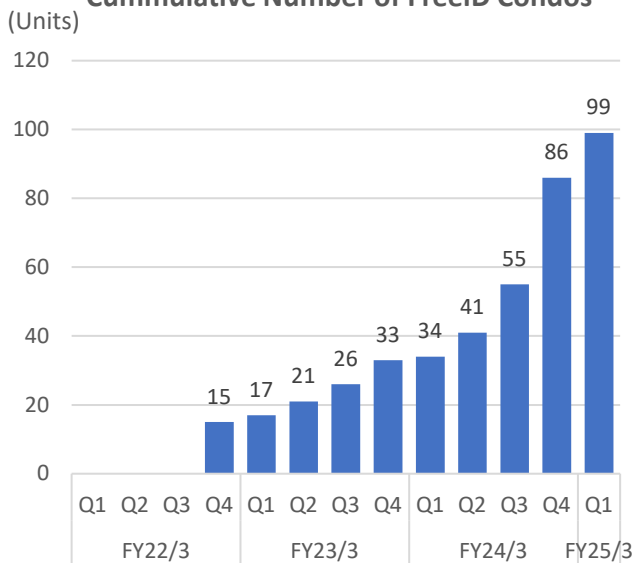
DX Real Estate membership, which Migalo Holdings positions as the "core" of the DX Real Estate business, grew steadily, reaching 179,975 as of the end of June 2024.

1Q FY2025/3 unit sales by property type in the DX Real Estate business consisted of 127 new investment condominiums (from 243, a year-ago), 208 existing investment condominiums (144), 46 1LDK type residential units (62), and 1 rental apartment (1), with sales of existing investment condominiums were strong.

According to the Company, it had been strengthening its procurement of pre-owned properties since the start of the year, following better-than-expected pre-owned property sales in the previous year (FY2024/3). The overall real estate sales environment, including for pre-owned properties, remained favorable, allowing the Company to exceed its forecasted sales volume. From the perspective of agencies that introduce pre-owned properties, Migalo Holdings' strong procurement track record underpins its credibility and sales capabilities, giving it a competitive edge in procurement over industry peers.

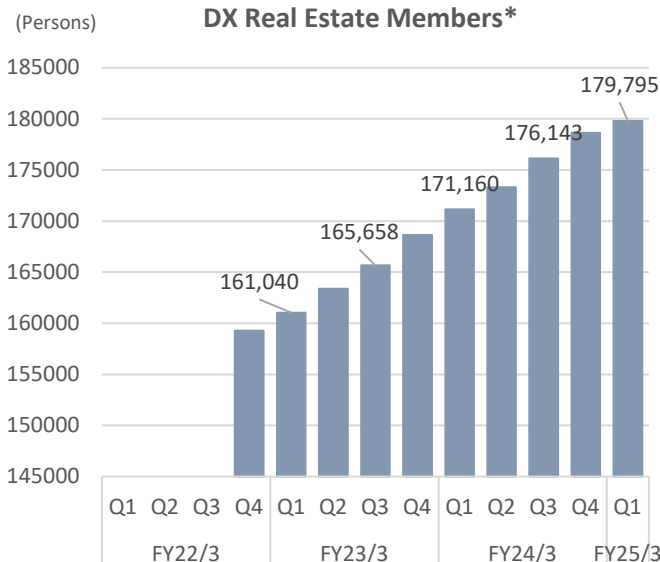
\*From FY2025/3, the Company revised its calculation methodology for both the DX Real Estate Membership trends and Sales Contract trends, and retroactively adjusted these figures accordingly.

**Cummulative Number of FreeiD Condos**

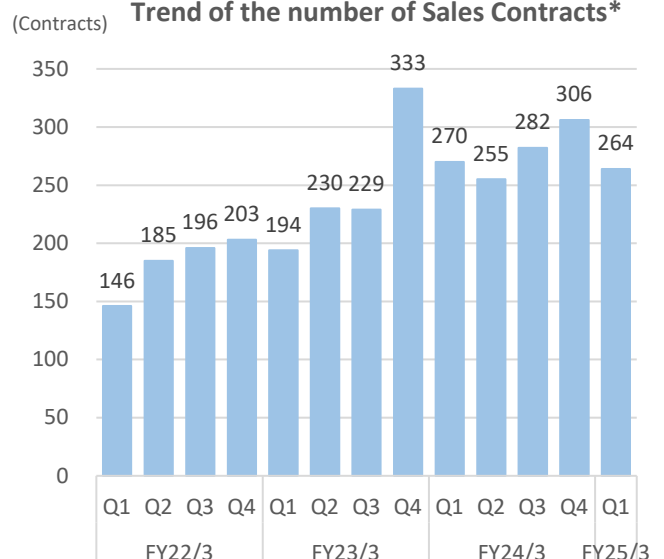


In line with the growth in sales inventory, primarily of pre-owned properties, interest-bearing debt also increased. However, the scale of borrowings is not significant enough to affect the Company's Enterprise Value, and the impact from changes in interest rates should also be insignificant. Therefore, it's unlikely that the DX Real Estate business's profit will fall far short of initial forecasts, which were conservative to begin with, for this fiscal year. Nevertheless, with no signs of a softening in construction material or labor cost – and the potential for further increases – management is not being complacent about profitability and is steadily executing its business plan for the rest of the year.

**DX Real Estate Members\***



**Trend of the number of Sales Contracts\***



Source: Compiled by SIR from the company IR material.

## Share Price Insights

### ■ Expectation for management's commitment to resolving "Information Asymmetries"

The Company's stock price has been on an upward trend since March. The stock split announcement (effective July 1) alongside FY2024/3 results served as a catalyst, driving sharp increases in trading volume and stock price in June, with shares reaching a record high of ¥5,310 (pre-split) on June 14. Although some price adjustment was expected after the ex-rights date, shares fell sharply, possibly due to the unwinding of speculative positions, and returned to the same level as March (¥911 post-split adjustment). During this period, there were no significant changes in the Company's fundamentals, but the abnormal spike in the price volatility was notable. However, 1Q earnings results and the upward revision to the interim dividend appears to have reassured the market, with share price movements as of late broadly reflective of fundamentals, based on SIR's view.

The recent valuation, back at March levels, indicates that the Company's PBR and PER are the lowest even among industry peers that pay no dividend (see table below). With a roughly 2% dividend yield, the Company's share price appears attractive and undervalued. In the short term, investors may pursue a strategy similar to the one observed in March, seeking to secure interim dividend rights at the end of September. The sharp share price decline in July could suggest that many negative factors may already be priced in. SIR believes that new information disclosures, such as progress updates on FreeID implementation, could reignite market interest and lead to a healthy revaluation of the Company's Enterprise Value.

The management is striving to improve IR activities to improve and eliminate information asymmetry, both in terms of quality and quantity by using various venues and opportunities to hold company briefings not only for individual investors but also for institutional investors. Meanwhile, with regard to the factor of "Concerns over meeting continued listing criteria for TSE Prime (*maintaining the market capitalization of the tradable shares of over ¥10 bn.*)", the Company will continue to explore various options by the end of March 2027.

### Valuation comparison of peers

TSE Code			5535	2980	3491	3915	4178	4414
Listing classification			Prime	Prime	Growth	Prime	Growth	Growth
Company Name			Migalo Holdings	SRE Holdings	GA technologies	TerraSky	Sharing Innovations	FLECT
Latest act. FY			2024/3	2024/3	2023/10	2024/02	2023/12	2024/03
Share Price	¥	2024/8/15 cp	1,270	3,905	1,052	2,072	716	1,970
Shrs out.	1,000 shrs	Latest FY	14,688	16,212	36,917	12,918	3,793	6,048
Mkt Cap.	¥ mn	Latest FY	18,654	63,306	38,836	26,767	2,716	11,914
EV	¥ mn	Latest FY	42,256	68,097	51,243	22,813	2,095	10,924
PER	X	Latest FY	16.6	45.5	38.2	88.7	78.8	26.8
		CE (current period)	14.8	34.1	22.9	47.1	19.1	20.9
		Consensus forecast (next period)	--	27.0	9.8	29.7	--	13.4
PBR	X	Latest FY	1.79	5.19	1.88	2.40	1.85	5.99
PSR	X	Latest FY	0.44	2.61	0.26	1.40	0.54	1.72
		CE (current period)	0.37	2.34	0.21	1.11	0.52	1.46
EV/EBITDA	X	Latest FY	16.2	26.3	6.9	24.1	9.3	12.5
		CE (current period)	15.6	19.9	N.A.	16.8	5.3	10.2
		Consensus forecast (next period)	N.A.	15.0	4.4	N.A.	N.A.	N.A.
EBITDA	¥ mn	Latest FY	2,605	2,587	7,468	948	226	871
		CE (current period)	2,705	3,424	--	1,357	394	1,066
		Consensus forecast (next period)	--	4,532	11,633	--	--	--
ROE	%	Latest FY	11.2	11.9	5.1	2.9	2.4	25.0
Div. Yield	%	CE (current period)	2.05	0.00	0.00	0.00	0.00	0.00
Share Price Change Rate	%	from 3 mths ago	(11.9)	(0.6)	(29.4)	3.6	(13.5)	(24.1)
		from 6 mths ago	83.0	18.9	(23.4)	38.2	(6.0)	(33.9)
		from 12 mths ago	--	19.4	(10.1)	0.1	(11.1)	22.4

Source: Compiled by SIR from SPEEDA data.



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