



Strategic Capital

This campaign website is an abbreviated reference translation of the original in Japanese.  
In the event of any differences between the original and the English translation, the original Japanese version shall prevail.

# Proposal for GungHo Online Entertainment, Inc. (3765) to up its game



## Overview

Strategic Capital, Inc.'s (SC) goal is to unlock enterprise and shareholder value through dialogue with the Company's Executive Management ("Management") and the exercise of shareholder rights.

SC and the funds managed by our company are shareholders of GungHo Online Entertainment, Inc. ("GungHo" or the "Company"). In order to increase shareholder value, we have exercised our shareholder rights to make the following proposals

### Review Remuneration System

Proposal ① Explain reason for change in base remuneration

Proposal ② Improve the performance-linked system

Proposal ③ Stock option plan

### Review Capital Policy

Proposal ④ Pay JPY17.8B in dividends

Proposal ⑤ Determine dividends at the AGM

Proposal ⑥ Cancel treasury shares

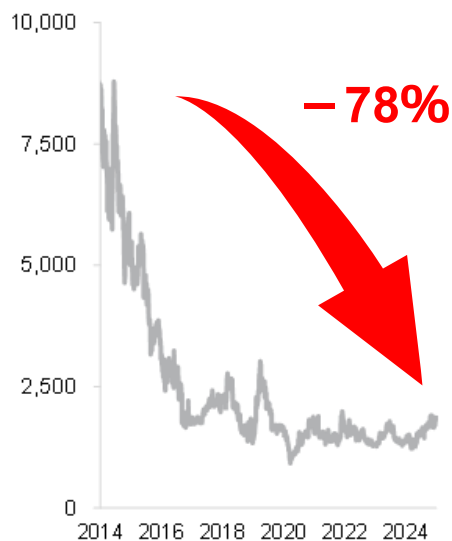




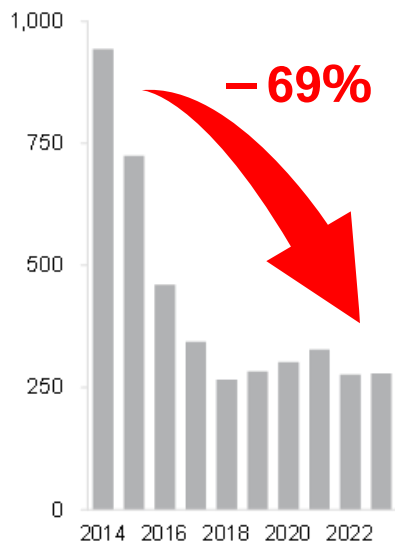
## What purpose does paying JPY340m serve?

Significant increase in Morishita's pay despite significant declines in OP and market cap

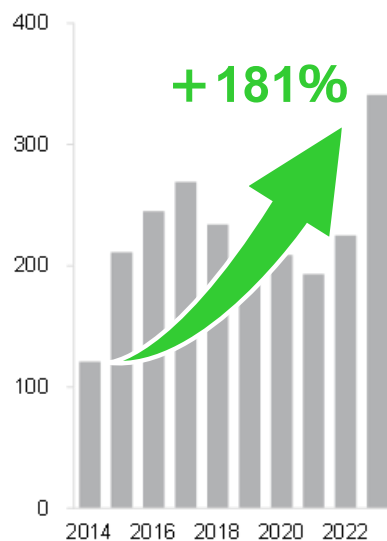
Market capitalization



Operating profit



President Morishita's pay



President Morishita's pay has increased significantly from JPY 120m to JPY 340m over the past 10 years despite a **significant decline in operating profit and market capitalization.**

SC has submitted a FSP to fundamentally review the inconsistency between compensation and capital policy and create an opportunity to emerge from the depths of sinking earnings and underwater share price.

(Source: QUICK Workstation (Astra Manager) and annual securities reports.

Units are JPY100m for Market capitalization and operating profit, and JPY1million for President Morishita's pay. Market capitalization covers the period from the beginning 2014 to the end of 2024 and excludes treasury shares.)





## Sluggish shareholder value over the long term

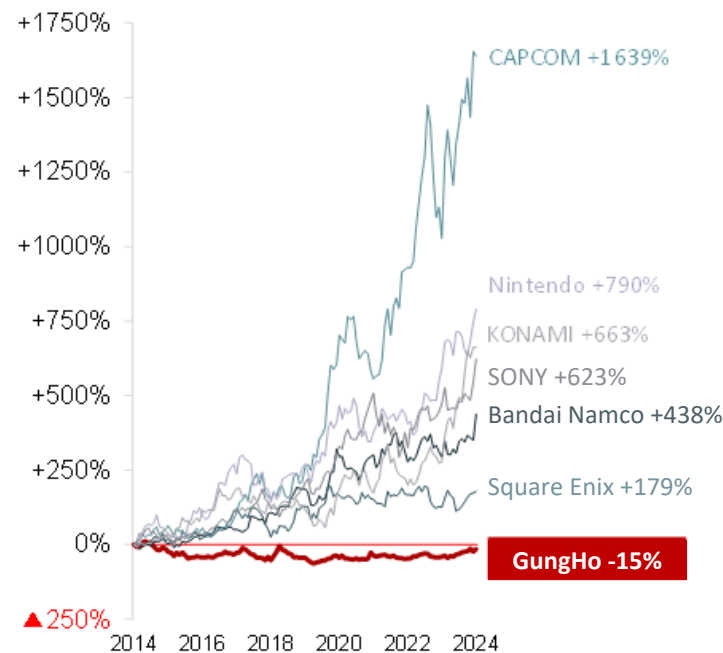
Compared to gaming giants, GungHo is the only company with a negative return over the past 10 years. In terms of market cap, GungHo is far smaller and not just compared to Nintendo.

Why do we compare GungHo to game companies that are several magnitudes larger?

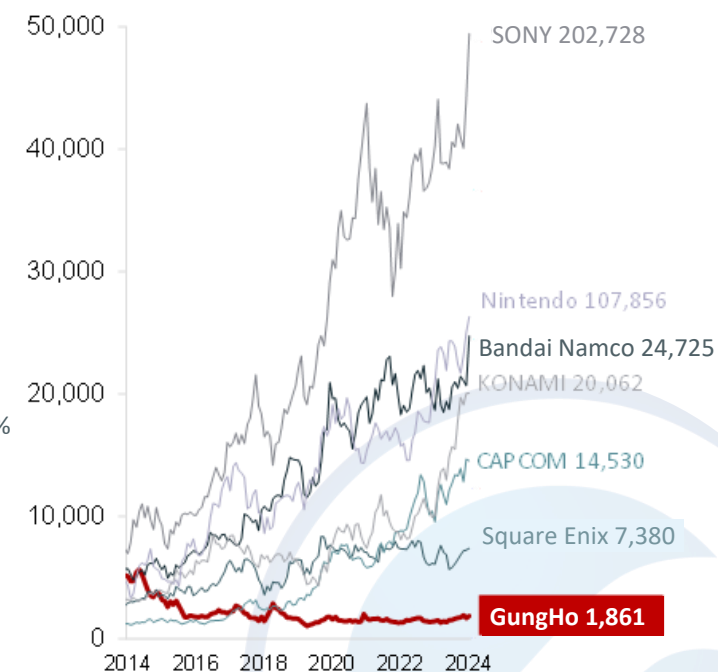
It is because of President Morishita's remuneration.

### Shareholder return and market cap of GungHo has trailed the gaming giants.

Total shareholder return



Market capitalization (JPY100m)



(Source: QUICK Workstation (Astra Manager) as of December 31, 2024. Shareholder return is calculated starting December 31, 2014. Market cap of Nintendo and Sony is shown in 1/5th scale. Market capitalization excludes treasury shares.)





Remuneration that ignores performance and stock price:

Sluggish value

Remuneration compared

Inferior profits

### Remuneration compared to the gaming giants

#### Morishita's pay is up there with gaming giants and on par with Nintendo

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Largest	Bandai Namco 180 m	<b>GungHo</b> 210 m	Sony 330 m	<b>GungHo</b> 270m	<b>GungHo</b> 230 m	Nintendo 260m	SQUARE ENIX 520 m	SQUARE ENIX 440 m	Nintendo 360 m	Nintendo 360 m
	<b>GungHo</b> 120 m	Sony 190 m	<b>GungHo</b> 250 m	SQUARE ENIX 260 m	Nintendo 210 m	SQUARE ENIX 230 m	Nintendo 320 m	Nintendo 320 m	SQUARE ENIX 310 m	<b>GungHo</b> 340 m
	Sony 170 m	SQUARE ENIX 210 m	Nintendo 210 m	Sony 210 m	SQUARE ENIX 210 m	<b>GungHo</b> 200 m	Bandai Namco 220 m	Sony 310 m	Bandai Namco 250 m	SQUARE ENIX 300 m
	SQUARE ENIX 130 m	Bandai Namco 200 m	Bandai Namco 210 m	Nintendo 210 m	Bandai Namco 200 m	Bandai Namco 200 m	Sony 210 m	Bandai Namco 240 m	Sony 230 m	Sony 290 m
	KONAMI 190 m	SQUARE ENIX 210 m	Bandai Namco 200 m	Sony 200 m	Sony 180 m	<b>GungHo</b> 210 m	<b>GungHo</b> 190 m	<b>GungHo</b> 230 m	CAPCOM 200 m	
	Nintendo 100 m	CAPCOM 100 m	CAPCOM 140 m	CAPCOM 190 m	CAPCOM 200 m	KONAMI 140 m	KONAMI 190 m	KONAMI 200 m	KONAMI 170 m	
Smallest	CAPCOM 120 m	Nintendo 120 m	KONAMI 170 m	KONAMI 170 m	KONAMI 170 m	CAPCOM 120 m	CAPCOM 120 m	CAPCOM 170 m	Bandai Namco 160 m	

Comparing President Morishita's remuneration with the presidents of major game companies, his pay is close to Nintendo, one of the world's leading game companies. Over the last 10 years the amount has never been less than CAPCOM or KONAMI's.

By almost any measure GungHo would usually not be in the same league as Nintendo, except for some reason the amount of remuneration for the top management is comparable.

(Source : Compiled by the Company based on securities reports. )

New pay type added from 2023





Remuneration that ignores performance and stock price:

Sluggish value

Remuneration compared

Inferior profits

### Profits that are inferior to the gaming giants

Despite the high remuneration, profits, specially since fiscal 2017 have been at the bottom, or second from the bottom.

While the president of GungHo and Nintendo make similar salaries, as far as profits are concerned, with less than 1/10th that of Nintendo, we would say that GungHo is not even playing the same game.

**Since 2017 profits have been mired in the bottom two**

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Largest</b>	<b>GungHo</b> 96.5B	Sony 109.5B	Sony 161B	Sony 206.6B	Sony 340.1B	Nintendo 361.9B	Nintendo 651.4B	Nintendo 603.3B	Nintendo 515.4B	Nintendo 546.8B
	Sony 66.4B	<b>GungHo</b> 74.8B	<b>GungHo</b> 49.4B	<b>Nintendo</b> 186.6B	<b>Nintendo</b> 259.3B	Sony 267.5B	Sony 394.7B	Sony 407.3B	Sony 337.2B	Sony 413.2B
	Bandai Namco 36.7B	KONAMI 46.4B	Bandai Namco 49.2B	Bandai Namco 53B	Bandai Namco 49.1B	KONAMI 52.9B	KONAMI 77.8B	KONAMI 81.8B	KONAMI 63.9B	KONAMI 88.3B
	<b>Nintendo</b> 33.8B	<b>Nintendo</b> 42B	KONAMI 38.8B	SQUARE ENIX 44B	KONAMI 48.2B	Bandai Namco 46.4B	Bandai Namco 59.1B	Bandai Namco 72.7B	CAPCOM 54.3B	CAPCOM 61.3B
	KONAMI 27.4B	SQUARE ENIX 32.3B	<b>Nintendo</b> 37.7B	KONAMI 41.3B	SQUARE ENIX 31.4B	SQUARE ENIX 40.2B	SQUARE ENIX 54.7B	SQUARE ENIX 66.9B	Bandai Namco 54B	SQUARE ENIX 40.1B
	SQUARE ENIX 23.4B	Bandai Namco 31.9B	SQUARE ENIX 37.6B	<b>GungHo</b> 36.3B	<b>GungHo</b> 29.1B	<b>GungHo</b> 31B	CAPCOM 37.4B	CAPCOM 46.3B	SQUARE ENIX 51.3B	<b>GungHo</b> 31.5B
		CAPCOM 14.1B	CAPCOM 17.7B	CAPCOM 19.6B	CAPCOM 20.7B	CAPCOM 21.4B	CAPCOM 25.6B	<b>GungHo</b> 34.5B	<b>GungHo</b> 35.8B	<b>GungHo</b> 30.8B
<b>Smallest</b>										

(Method of calculation

GungHo - Operating profit (OP) minus R&D and depreciation (Dep)

Bandai Namco - OP of Entertainment unit's digital business minus Dep

SQUARE ENIX, CAPCOM, Nintendo - OP minus Dep

Sony - OP of Game & Network Services Business minus Dep

KONAMI - OP of Digital Entertainment business minus Dep)



(Source : Compiled by the Company based on securities reports. )



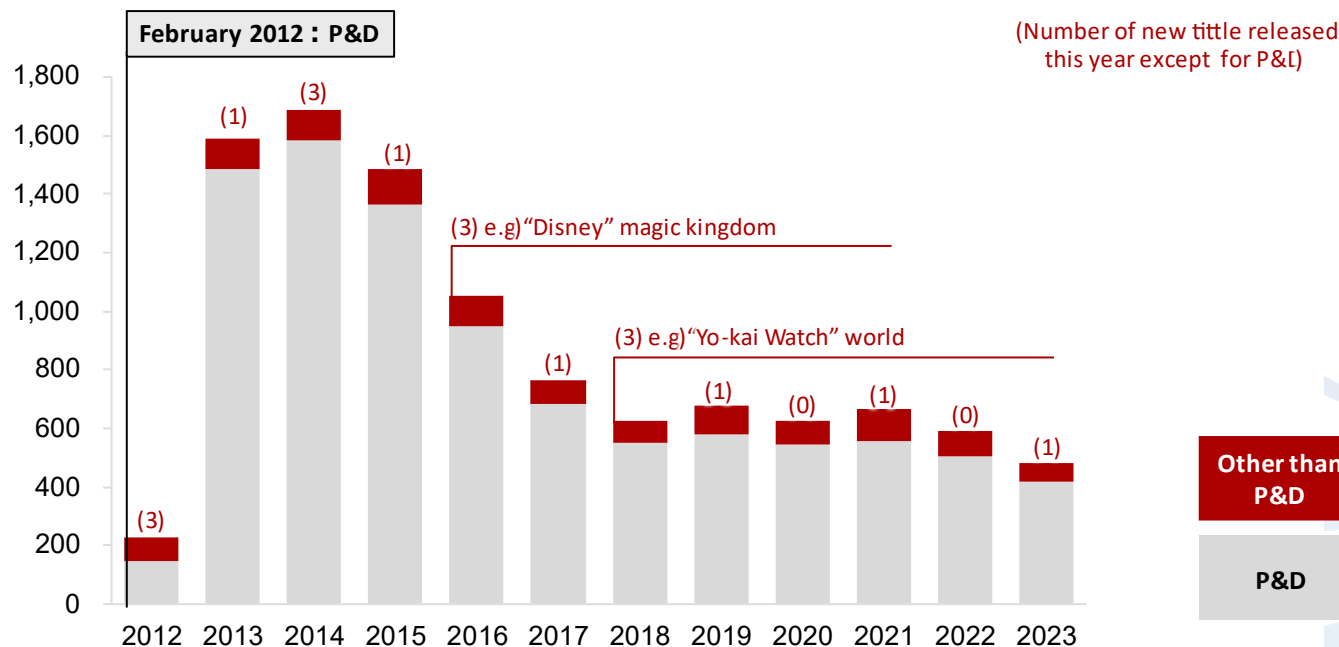
## No hits “other than Puzzle & Dragons”

GungHo relies on Puzzle & Dragons (“P&D”), which was released in 2012, for most of its revenue. However, even P&D revenues are gradually declining.

Despite releasing around 20 games since P&D, including titles linked to popular IPs such as “Disney” and “Yo-kai Watch”, they have all missed and the Company has not been able to exit their dependence on P&D.

### GungHo has continued to be dependent on P&D which was released in 2012

Non-consolidated sales and release dates of major titles (JPY100m)



(Source: QUICK Workstation (Astra Manager) and securities reports. Titles listed exclude P&D and RAGNAROK-related titles.)





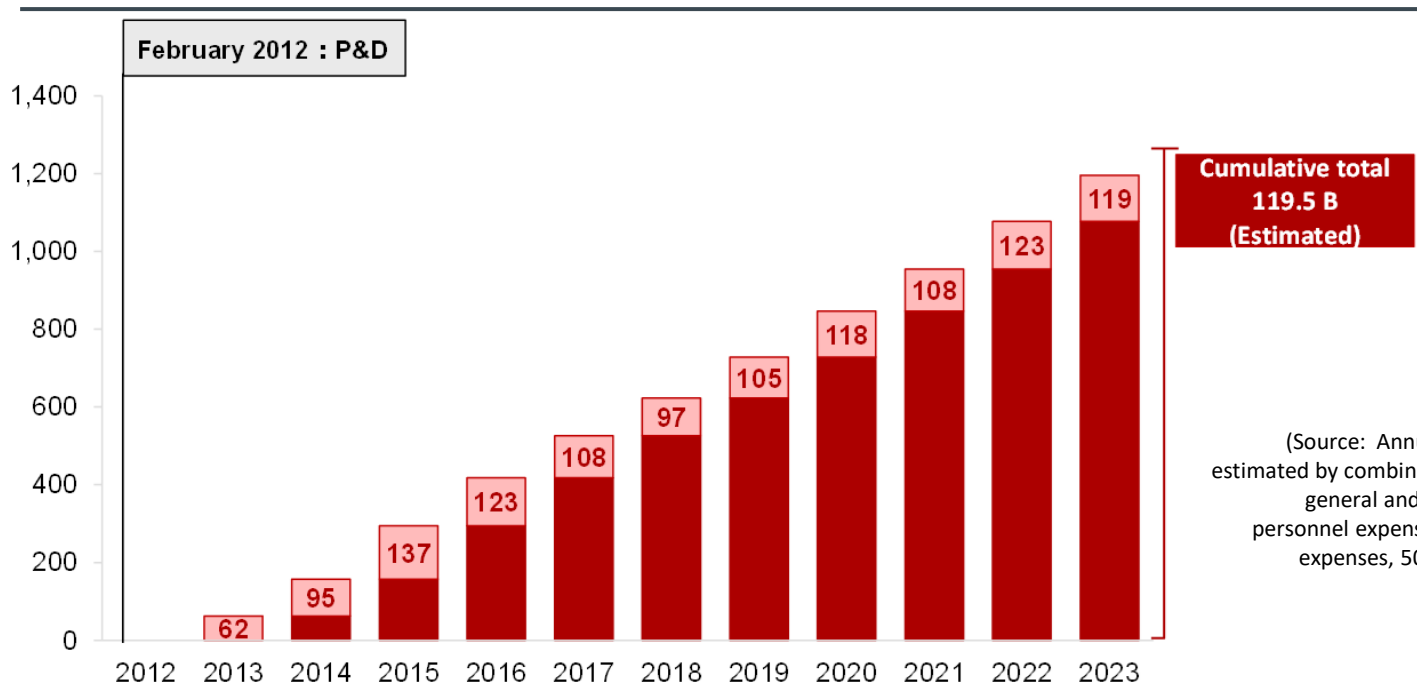
## Over JPY 100B and no hits

Since 2013, we estimate that GungHo spent more than JPY100B developing new titles other than P&D.

However, titles other than P&D earned less than JPY 10B, which is clearly insufficient a return after investing more than JPY 100B

**Failed to increase enterprise value despite 10+ years and JPY100B+ spent developing games other than P&D**

**Cost for developing new titles other than P&D (JPY100m)**



(Source: Annual securities reports. Cost for developing new titles is estimated by combining 20% of Gung Ho's non-consolidated selling, selling, general and administrative expenses since 2013, including 20% of personnel expenses, 50% of advertising expenses, 100% of outsourcing expenses, 50% of other expenses, and 100% of impairment losses.







# 13 years and no hits

13 years and JPY100B developing 20 games other than P&D without any hits.

Even compared to consoles that have longer development periods, and few trials, 13 years is a long time and cannot be explained away by saying “developing games is difficult.”

## 13years with no hits is critical compared to the game consoles

### Release dates of major game consoles

		4th Gen.	5th Gen.	6th Gen.	7th Gen.	8th Gen.	9th Gen.
Nintendo (Home)	Model name	Super Nintendo	N64	GameCube	Wii	Wii U	Switch
	Release	November 1990	Jun 1996	September 2001	November 2006	November 2013	March 2017
Sony (Home)	Model name		PlayStation	PlayStation 2	PlayStation 3	PlayStation 4	PlayStation 5
	Release		December 1994	March 2000	November 2006	November 2012	November 2020
Sony (Portable)	Model name			PSP	PSP go	PS Vita	✘ Production ended
	Release			December 2004	October 2009	December 2011	March 2019

The longest interval between hits is about 16 years.





## Required reforms

In his president's message, Morishita talks about "Challenge and Creation" and "aiming to become the world's No. 1 entertainment company." Over the past 10 years, only Morishita's salary has continued to Challenge and Create, to the point it is now on par with one of the world's leading video game companies, Nintendo. During the same span, GungHo has not created and instead has seen its value destroyed, and far from being world's No 1, is a buried entity even in Japan.

SC believes that the excessive remuneration for President Morishita, who also serves as head of the Development Division, has led to a lack of incentive to develop games.

Therefore, we have submitted a **proposal to fix the current remuneration system which allows for compensation of JPY 340 m despite wasting 13 years and JPY 100B.**

## Challenge & Creation



Source: GungHo website <https://www.GungHo.co.jp/en/company/message.html> from Jan 22, 2025.





## Going private through a partnership is the best option

SC is making FSP to increase shareholder value based on the premise that GungHo is a publicly traded company.

However, we believe that going private through a partnership is the best option for GungHo.

### Privatizing with a partner maximizes shareholder value and accelerate growth without disadvantages

			Impact to GungHo
Demerit to going private in general	Fundraising	✗ Difficulty in raising funds from stock markets	✓ N/A Current financial situation doesn't require financing
	Recruitment	✗ Difficult to recruit quality personnel due to lower name recognition	✓ N/A already has strong name recognition
	Social credibility	✗ Loss of "public listing" status may impact credibility	✓ N/A already has established social credibility
Merit to going private	Listing costs	✓ Listing maintenance costs reduced	✓ Applies here
	Management decisions	✓ Enables quick business decisions	▲ Partially applicable. Already realized to a certain degree
Partnership	Business risks	✗ High reliance on P&D/RAGNAROK	✓ Can be diversified by combining with partner's business
	Knowhow	✗ Lack titles a disadvantage vs larger game companies for gaining knowhow	✓ Use not only partner's titles but also knowhow of B2C business
	User reach	✗ Less reach compared to gaming giants	✓ Combine to expand user reach

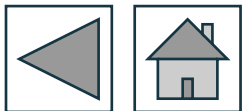




## Outside directors that can support the realization of a partnership

In response to our proposal to take the Company private through a collaboration with the partnership, GungHo's CFO Kazuya Sakai has denied the existence of anything specific in progress but explained that he intends to share information with the outside directors from the initial dialogue state and respond appropriately in accordance with the "Guidelines for Corporate Takeovers" (Ministry of Economy, Trade and Industry).

GungHo has appointed two outside directors with deep knowledge of business-to-business partnerships and we hope that potential partners will be actively sought and partnerships pursued.





## Keiji Miyakawa

### <Career>

In addition to serving as Chairman of Lincoln International in Japan, Mr. Miyakawa was the Head of M&A Group of Deutsche Securities Inc. and Vice chairman of Global Banking Group of Deutsche Securities Inc.. He continues to serve as a Senior Advisor to Lincoln International, Inc.

### <Our expectations>

In addition to its extensive investment banking advisory experience in realizing partnerships, Lincoln International has “a unique presence as a seller’s financial advisor for investment funds in the U.S.” (MARR Online) and recognized for its outstanding ability to search for potential partners and realize partnerships especially from the seller’s perspective.

We hope the Director Miyakawa will be able to fully utilize his expertise in realizing partnerships.



**Keiji Miyakawa**

Senior Advisor

I am driven by the opportunity to globalize Japanese corporations.



Who We Are / Our People / Keiji Miyakawa

Keiji has a deep understanding of the Japanese market and helps his clients to invest in businesses and assets overseas. With more than 30 years in investment banking, Keiji has advised domestic and international clients in strategic, cross-border transactions including M&A, joint ventures and restructurings. He also has extensive experience advising clients in structuring and raising financing for acquisitions and other principal investment opportunities.

Source: Lincoln International website <https://www.lincolninternational.com/people/keiji-miyakawa/> from Jan 22, 2025.





## Hidetsugu Onishi

### <Career>

He served as investment officer at Fuji Capital Management (now MCP Partners, Inc.), Director and CFO of Link Theory Holdings, Inc. and Executive Officer and CFO of Fast Retailing Co. He founded and continues to serve as Representative Director of Avergence, Co. Ltd.

### <Our expectations>

Mr. Onishi was a Director and CFO of Link Theory when the company was taken private through a TOB by Fast Retailing so has firsthand experience of a takeover through a partnership. He also co-taught a course on “Corporate Takeovers and Governance” as a visiting professor for the MBA program at Chuo University’s Graduate School of Strategic Management.

We hope that Director Onishi will bring his expertise of both partnerships and the improvement of governance.



Source: Avergence Co., Ltd website <https://avergence.co.jp/leadership/> from Jan 22, 2025. Japanese only

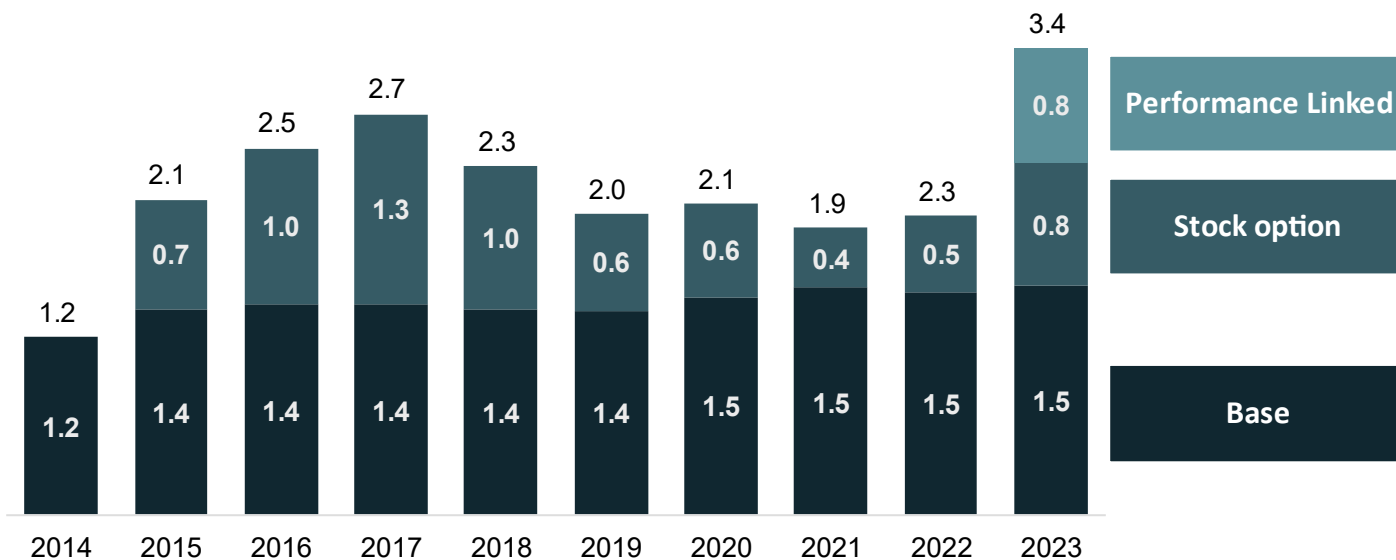




## Shareholder Proposal: Fundamental review of the remuneration system

### Fundamental review of remuneration system is needed

Changes in President Morishita's remuneration (JPY100m)



(Source: Annual securities reports)

While SC believes that a partnership is the best options for increasing shareholder value, GungHo's remuneration system must be corrected if GungHo is to remain a publicly traded company and increase shareholder value.

President Morishita's remuneration for FY2023 consisted of 3 parts. A base of JPY 180m, as well as JPY 80m in performance linked remuneration and another JPY 80m in stock options.

We propose that Morishita's remuneration which is stable between JPY 200-300m be changed to reflect the Company's performance and stock price.





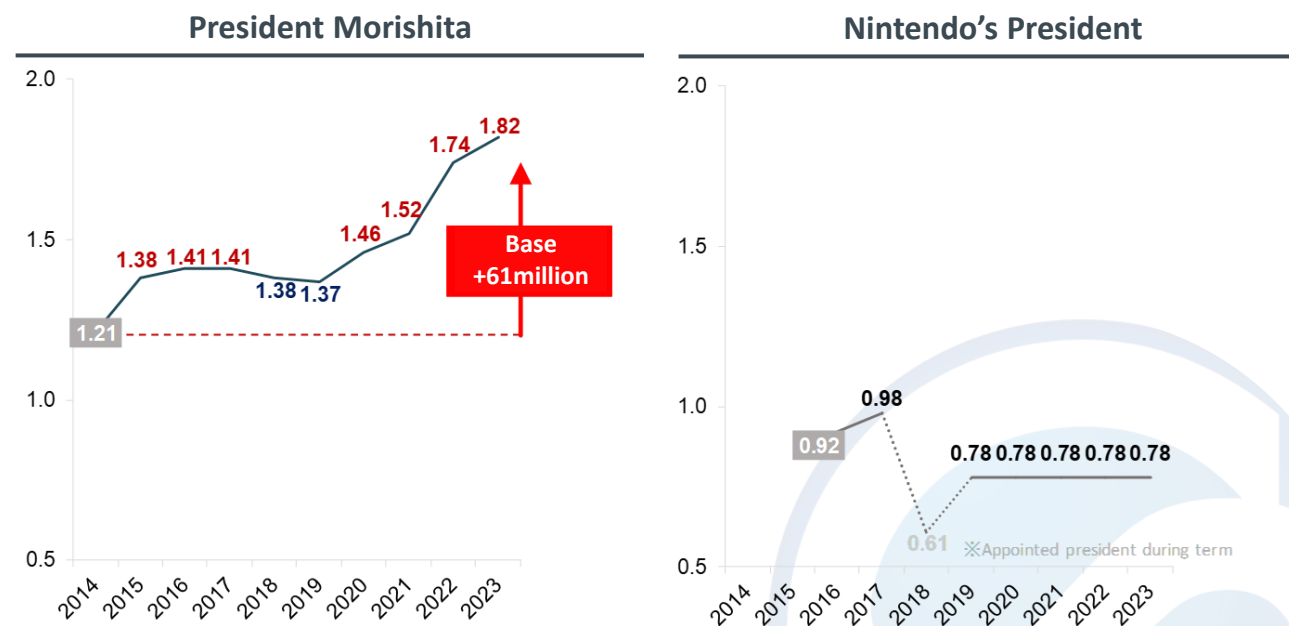
## Proposal ①: Explain reason for change in base remuneration

Before delving into the total compensation of JPY340m, there is the issue of Morishita's base pay which has continued to rise. JPY180m is more than twice that of Nintendo's President and this should be corrected. Yet GungHo has not disclosed any information regarding the decision to increase Morishita's base remuneration.

Therefore, as a first step in improving the remuneration system, SC has submitted a **proposal to disclose the reason for the change in the event the representative director's base remuneration has changed.**

Morishita's base rose by JPY60m from 120m to 180m with no reason given

Changes in CEO's Base (JPY100m)



(Source: Annual securities reports)





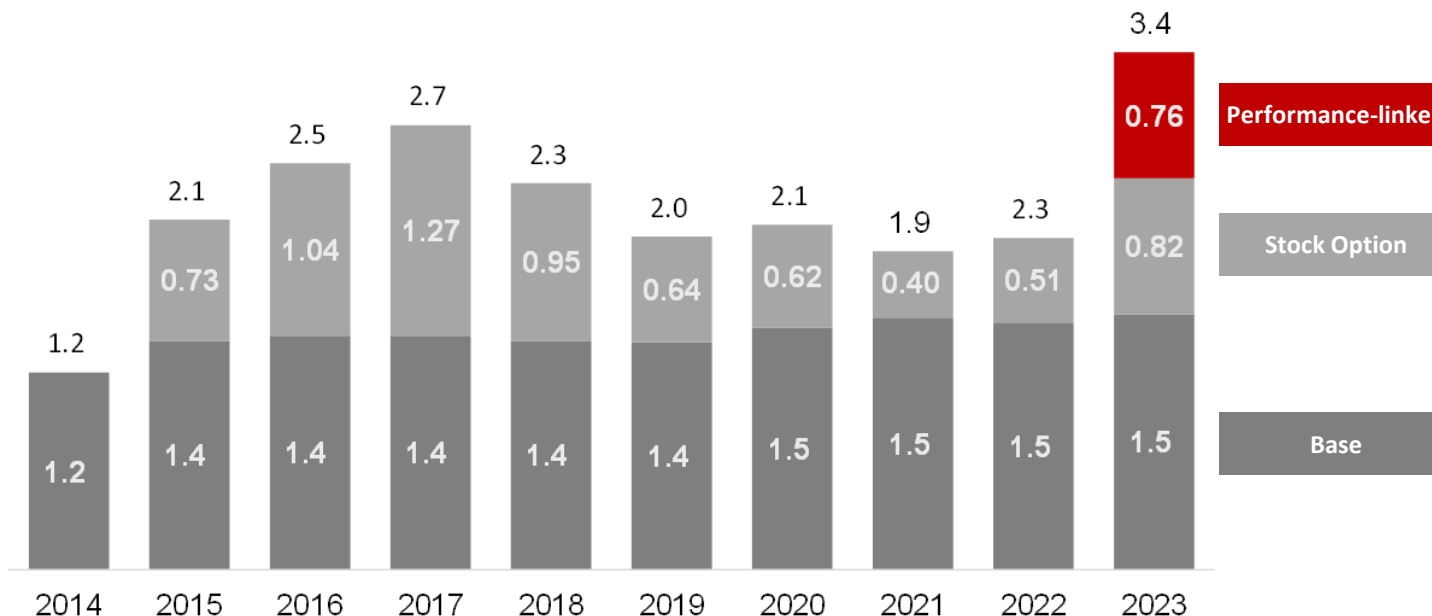


## Proposal ②: Improve the performance-linked remuneration system

GungHo began paying performance-linked remuneration to directors from FY2023, and Morishita received JPY80m. However, since performance-linked remuneration is **“separate”** from other remuneration and merely added, it is in reality merely an increase in his base remuneration.

Performance-Linked remuneration is merely an increase in his base

Change in President Morishita’s remuneration (JPY100m)



(Source : Compiled by the Company based on securities reports. )





## Proposal ②: Improve the performance-linked remuneration system

As the remuneration is very similar to Nintendo's, we believe it was constructed using Nintendo as a reference. However, the most important part of the calculation, **percent of operating profit was changed from 0.2% to 0.5% in favor of GungHo management.**

This is not a "good deal".

Both are similar *except* where it counts the most

✂Sections where the two systems differ are shown in red

### GungHo (introduced March 2023)

### Nintendo (Introduced June 2007)

To raise awareness of performance improvement,	To raise awareness of performance improvement,
the performance-linked remuneration per <b>executive</b> director	the performance-linked compensation per director <b>(excluding audit committee members)</b>
<b>shall be</b> calculated using the following formula	<b>is</b> calculated using the following formula,
<b>with</b> consolidated operating profit <b>used</b> as the index	<b>using</b> consolidated operating profit as the index
Consolidated operating profit x <b>0.5</b> % x Point for each director / Total director points	Consolidated operating profit x <b>0.2</b> % x Point for each director / Total director points

**GungHo's performance-linked remuneration is not Nintendo's "0.2% of operating profit" but 0.5%**

Source: Annual securities reports, GungHo FY ending Dec 2023, Nintendo FY ending Mar 2023





## Proposal ②: Improve the performance-linked remuneration system

Therefore, to correct the generous performance-linked remuneration system which is in reality nothing more than an increase in his base, SC has made a FSP **to review the balance between base and performance-linked remuneration and to review the calculation method for “performance”.**

### SC proposal fundamentally resolves problems without changing total compensation

#### Comparison of base and performance-linked remuneration ※Changes requested in red

(In JPY)		Current system	Proposed system
Base remuneration		Upper limit <b>300 m</b> (+ employee salary) ※Total of executive and outside directors	Upper limit <b>150 m</b> (+ employee salary)
Performance-linked remuneration	Upper limit	<b>300 m</b>	<b>450 m</b>
	Calculation method	<b>Consolidated operating profit x 0.5%</b>	<b>(Current consolidate ROE – previous consolidated ROE) x 25m</b> ※Zero if current ROE is below 10%
Base remuneration level		✗ Highest in gaming industry, even surpassing Nintendo (For FY2023, in addition to base remuneration, a total of JPY 170m (avg 44m) was paid to directors who concurrently served as employees)	✓ Avg per executive director: 16.66 m
Performance-linked remuneration	Growth incentive	✗ Paid even if profits decline as long as company does not go into the red	✓ Not paid if ROE growth negative or if ROE less than 10%
	Link to shareholder value	✗ 100% reflects performance of not wholly owned subsidiaries (For FY2023, 22.1B of consolidated net income, 5.7B is from non-controlling interests)	✓ Earning deduct for non-controlling interests
Balance of remuneration		✗ 1:1 ratio of base to performance-linked (Maximum)	✗ 1:3 ratio of base to performance-linked (Maximum)





## Proposal ③: The stock option plan

### Business performance and corporate value stagnant since introduction of SOP

#### Explanation given for introduction of Stock option plan (AGM March 2015)

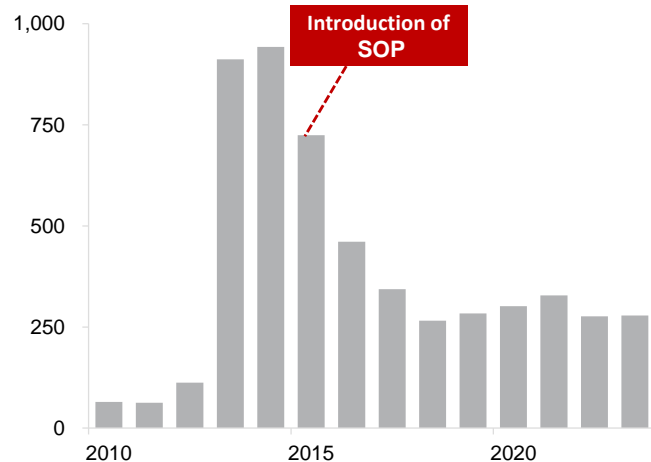
“In order to raise awareness towards shareholder-oriented management, and further increase motivation towards **growth over the medium-to-long term** and **increasing corporate value.**”

(English translation of excerpts from the Notice of Convocation of the 18th Ordinary General Meeting of Shareholders)

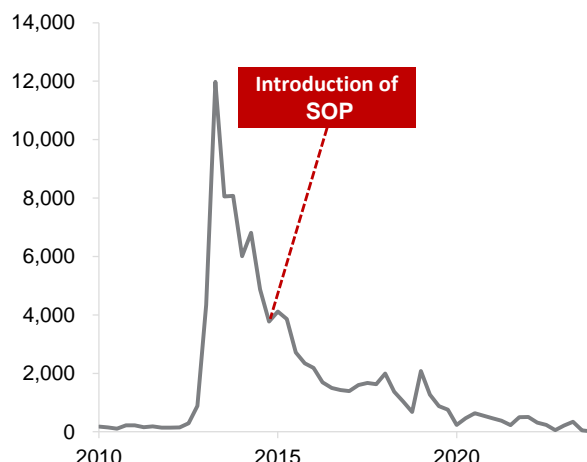
In March 2015, GungHo introduced a stock option plan with the aim of “*expanding medium-to-long term business performance*” and “*increasing corporate value.*”

However, over the 10 years since the introduction, both business performance and corporate value have been stagnant.

Operating profit (JPY100m)



Enterprise Value (JPY100m)



(Source: Compiled by the Company based on Notice of Convocation of the 18th Ordinary General Meeting of Shareholders and QUICK Workstation (Astra Manager). Enterprise value is calculated as market capitalization minus net cash.)





## Proposal ③: The stock option plan

Therefore, SC has proposed **abolishing the meaningless SOP and require managements to deliver results within a clear five-year timeframe** without additional dilution

Strongly encourage results within 5 years without changing the number of shares

Comparison of stock option plan ※Changes requested in red

In JPY		Current system	Proposed system
Payment amount	Upper limit/year	<b>300m</b>	<b>2B</b>
	Upper limit (total)	—	<b>10B</b>
Number of shares	Upper limit/year	150,000 (0.18% of issued shares)	150,000 (0.18% of issued shares)
	Upper limit (total)	—	<b>750,000</b> (0.90% of issued shares)
Granting period		<b>Annually</b>	<b>End of FY2029</b> (except if GungHo is acquired, or stock price rises significantly, until that time)
Calculation method for amount		Amount determined after considering position and responsibilities of each director, while taking into account the scope that can effectively function as an incentive.	$((1 + \text{GungHo's TSR} - \text{TOPIX TSR})^3 - 1) * \text{JPY } 100\text{m}$ ※Use TSR for the five-year period from FY2024 to FY2029
Total shareholder return = TSR			
Calculation method for number of shares		Amount ÷ fair value of stock options (※ <b>lower than</b> the actual stock price)	Amount ÷ Share price at start of year for FY2030 (※ <b>same as</b> the actual stock price)
Eligibility		Executive director	Executive director
Granting method		Stock options with exercise price of JPY1	Restricted stock





## Negligent management using being a game company as an excuse

### Inflated cash reserves stifle an appropriate level of tension

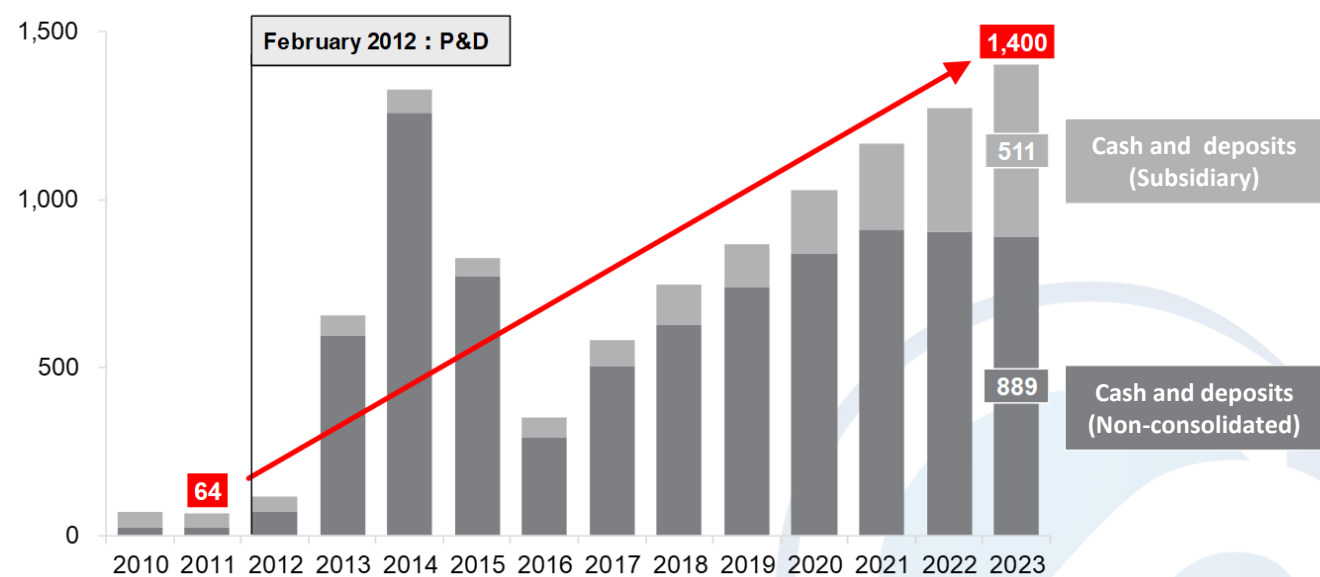
Cash reserves were **JPY 6.4B** before the release of P&D but has expanded to **JPY 140B** by the end of FY2023.

Considering P&D and dividends from consolidated subsidiaries, current level of cash and deposits would be safe even if there are not hits for the next 10 years.

In other words, they can **take it easy even without producing a hit for a quarter of a century** after introducing P&D.

Cash has swelled to JPY 140B from JPY 6.3B just prior to the release of P&D.

Change in cash and deposits (JPY100m)



(Source: QUICK Workstation (Astra Manager) and Annual securities reports)





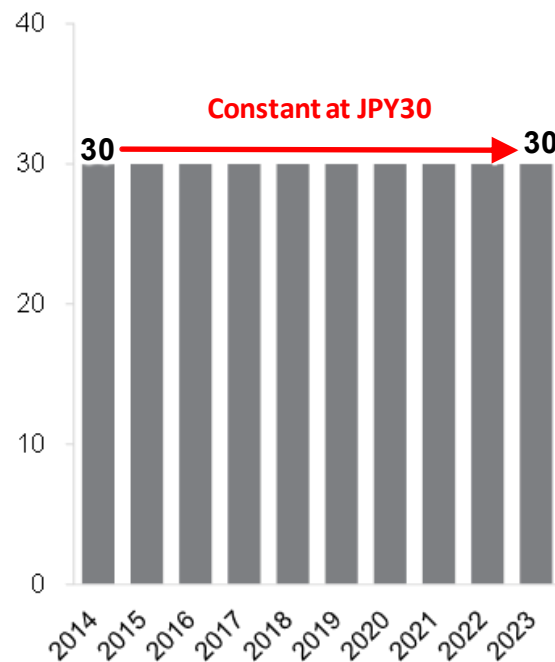
## Rigid dividend policy

Excess cash is a result of GungHo’s lax capital policy. While they state their shareholder return policy it is to “return profits commensurate with business performance while taking into consideration internal reserves to strengthen the management structure”, this is not reality.

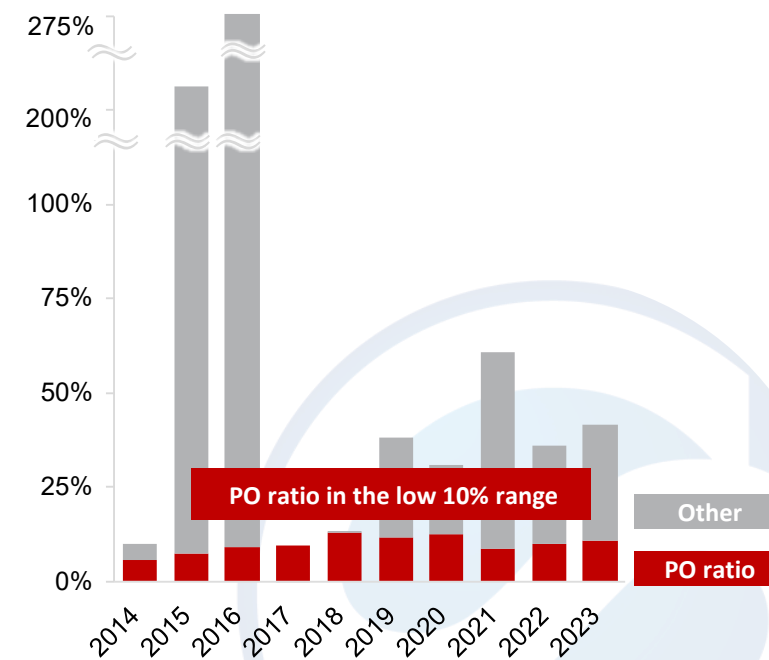
With the ordinary dividend steady at JPY30 and the PO ratio at less than 15%, SC believes the **capital policy is “just make it 30 yen” and completely disregards shareholders.**

### Dividend is steady at JPY30, and the payout ratio is less than 15%

Change in ordinary dividend (JPY)



Change in PO ratio / Total PO ratio



(Source: QUICK Workstation (Astra Manager) and Annual securities reports)





## Shareholder return or questionable share buybacks?

In addition to dividends, GungHo buys back shares as a means of returning profits to shareholders. However, SC believes it is not shareholder returns but instead a **“saving”** of dividends.

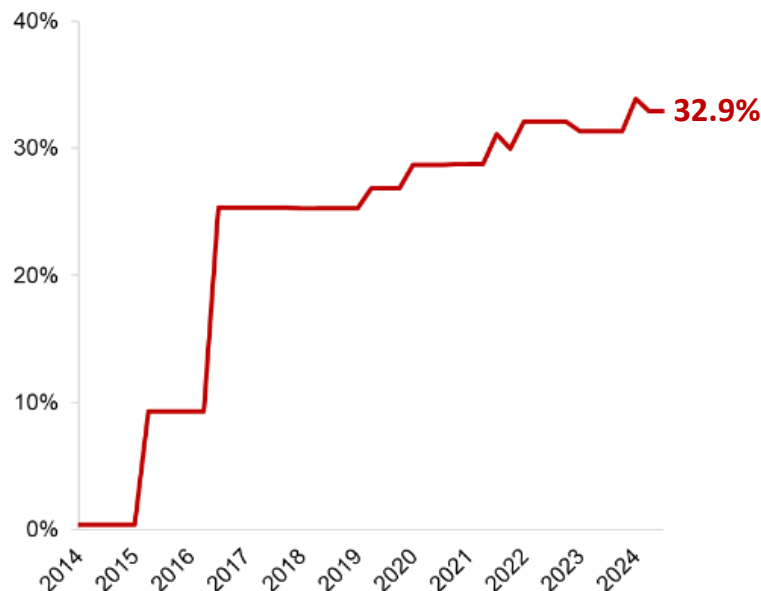
This is because GungHo does not cancel the acquired treasury shares, but *“envisions that they will be used as a stock swap in the event of an M&A or joint venture.”* Treasury stock held in this manner without cancellation account for 32.9% of all outstanding shares.

On the other hand, GungHo’s dividend has been fixed at JPY30, so **the total amount of dividend paid decreases every year as a result of the share buybacks.**

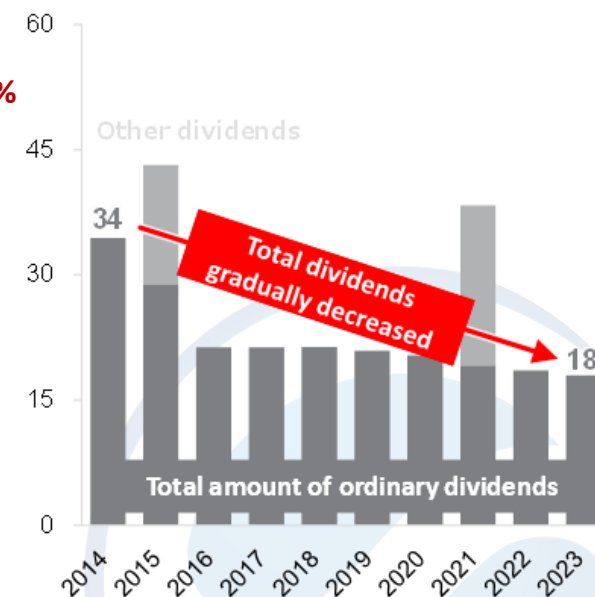
In other words, **the share buyback is a way for GungHo to “save” by reducing the total dividend** and is therefore not a shareholder return.

**If treasury shares are released in future, buybacks are merely “saving” dividends**

Ratio of treasury shares to outstanding shares



Change in dividend paid (JPY100m)



(Source: QUICK Workstation (Astra Manager) and Annual securities reports)







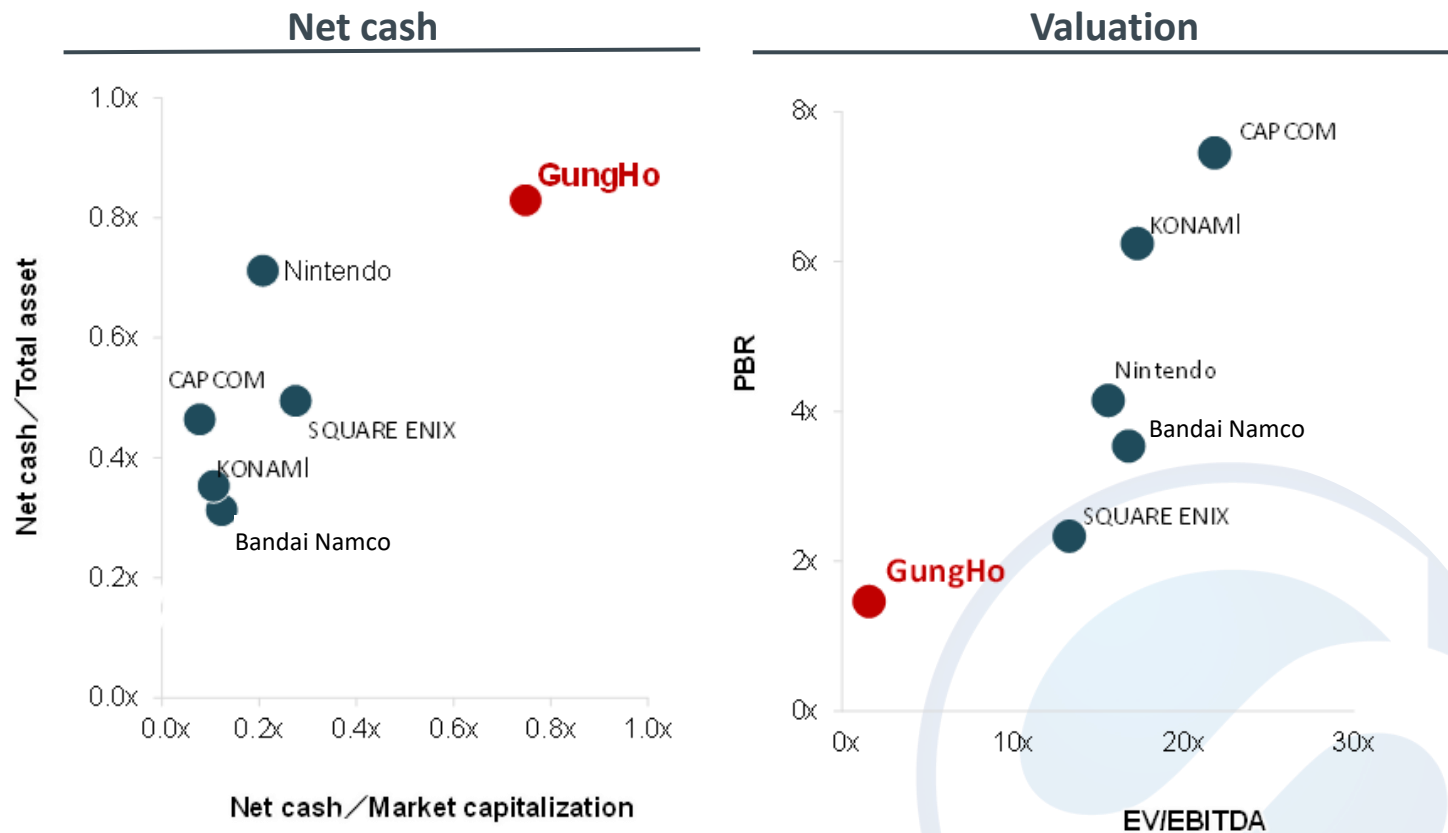
## Excessive cash and sluggish valuations

Comparing GungHo's cash reserves to the game giants the problem becomes clearer.

First, the level of net cash is much larger, highlighting the **excessiveness of the cash reserves**. On the other hand, PBR and EV/EBITDA are much lower.

Investors view the large amount of net cash held by major game companies more positively as a driving force for the creation of lucrative titles, but for GungHo, which has not had a success since P&D of 13 years ago, **GungHo's net cash is not viewed positively**.

### GungHo has more cash, lower valuations



(Source: QUICK Workstation (Astra Manager) and Annual securities reports)





## GungHo continues to flounder

For major gaming companies like Nintendo, having cash on hand is essential to help deal with the ups and downs of the industry. GungHo's CFO has even tried to say that "we (GungHo) doesn't have enough cash on hand" using Nintendo as an example.

*"The extreme fluctuations of the entertainment business mean there is no change to the basic policy behind our financial activities, which is to secure cash and other liquid assets in order to consistently deliver new surprises."*

Excerpt from Nintendo's Presentation materials for the Second Quarter Financial Results and Corporate Management Policy Briefing for Fiscal Year Ending March 2024 (Nov 8, 2023)

*"We need to take into account changes in the way users play and their preferences, among other matters, and our response to these changes still represents a risk factor. The need to enhance cash reserves to address these risks has not changed, and increased investment in response to change will certainly be necessary."*

Excerpt from CAPCOM's Integrated Report 2024

However, **GungHo has been underwater for 13 years. What GungHo needs is not cash that will make it safe even as they continue to drown, but an opportunity to resurface.**

Therefore, SC has made a shareholder proposal to fundamentally reform the Company's capital policy.





## Shareholder Proposal: Fundamental review of capital policy

*“With the abolition of the poison pill, I began to think that as a ‘last stand’, we had to somehow grow every year” Nomura recalled,” “and after internal discussions, we concluded that the best takeover defense was to continuously increase corporate value.”*

Excerpt from Nikkei Business “CAPCOM’s Comeback: Three Reforms that brought birth to a revival” (12/4/2023, Japanese only, SC translation)

The above quote is what Kenkichi Nomura, CFO of CAPCOM said in an interview with Nikkei Business when reflecting on the time when the poison pill was abolished. True to his words, CAPCOM has grown dramatically since the measures were abolished in April 2017 with its stock price increasing more than 10 times.

Until now GungHo has continued to play it comfortably. However, a relaxed management style that pays JPY340m, even with no new hit games for 10 years, with the ability to accumulate cash with little issue, failed to produce results.





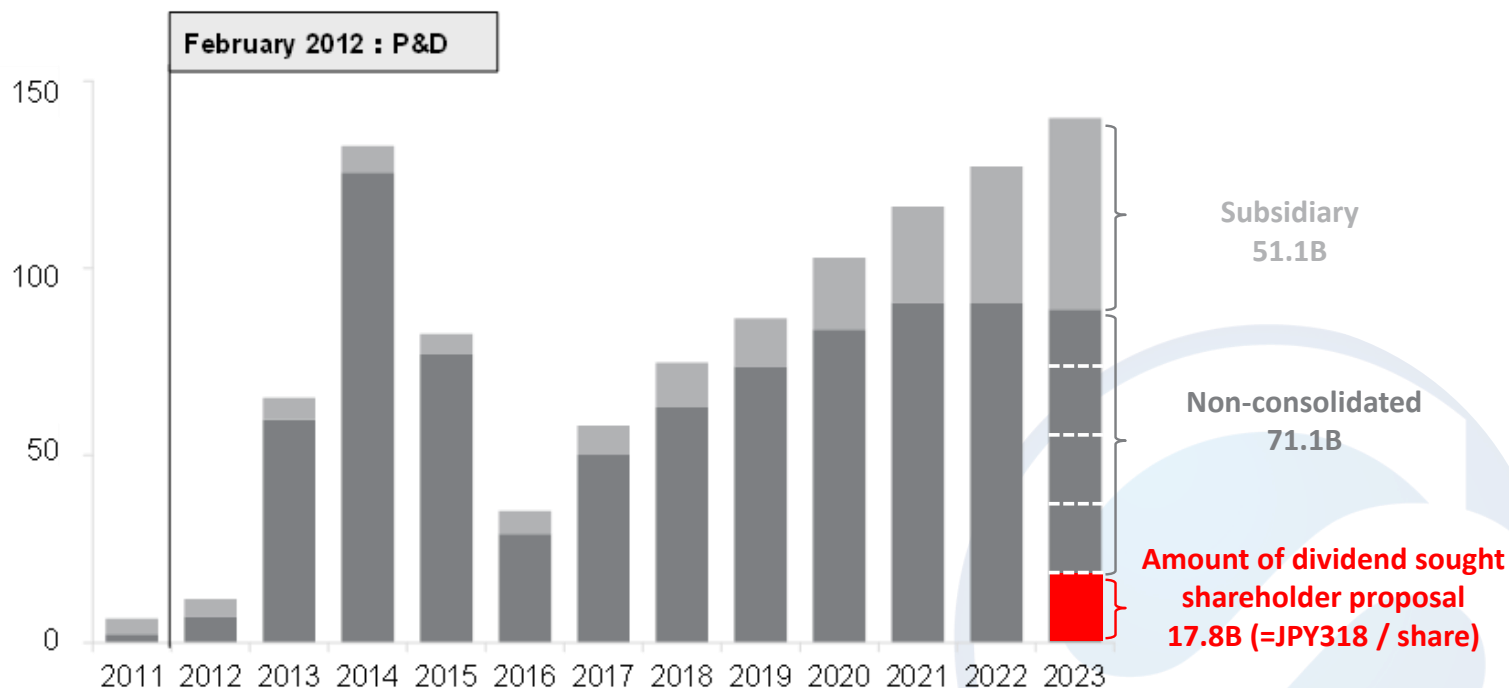
## Proposal ④: Make a dividend payment of JPY 17.8B

Therefore SC has submitted a proposal for **a dividend of JPY17.8B (318/share), which is equivalent to 20% of the non-consolidated cash balance of JPY88.9B.**

Compared to the current cash pile, JPY17.8B is not a large amount. However, we believe that the sense of urgency resulting from a feeling that cash will decline without a hit is necessary for GungHo to revive itself.

Approval will have a negligible impact on cash levels but will at least "decrease" it

Change cash and deposit (JPY1B)



(Source: QUICK Workstation (Astra Manager) and Annual securities reports)

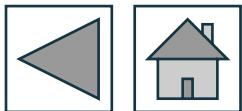




## Proposal⑤: Dividend to be determined at the AGM

Up to now, GungHo's dividend was determined at the BoD meeting rather than the AGM. As a result, the dividend was crudely set at JPY30, and shareholders have never had the opportunity to express their views on dividends through the exercise of their voting rights.

Therefore, SC has made a proposal requesting that, in principle, that **dividends should be determined at the AGM rather than at the BoD meeting.**





## Proposal⑥: Cancel treasury shares

GungHo has been slow in retiring its treasury shares, resulting in 32.9% of all issues shares being treasury shares. If they are holding on the premise that they may need it sometime in the future then the share buybacks are merely a way to save on dividends and cannot be considered a shareholder return.

Therefore, SC proposes that **the request to allow shareholders to vote on the cancellation of treasury shares at the AGM** and follows that with a proposal to **cancel all treasury shares held**.

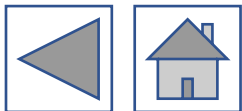




## Revisions

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**01.30.2025** Campaign website opened





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