



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.

GungHo Online Entertainment, Inc. (3765) – a modern retelling of an Emperor’s New Clothes



Morishita is the “Emperor with no clothes”

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.

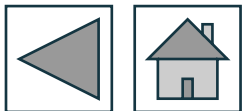
SC and the funds managed by our company are shareholders of GungHo Online Entertainment, Inc. (“GungHo” or the “Company”).

GungHo’s management, led by Kazuki Morishita has become entrenched, shielded by the presence of Taizo Son, a stable outside shareholder. Flush with cash, the Company’s management has drifted into complacency with no sense of urgency. Even when addressing poor performance or disclosing information, GungHo can hardly be said to be engaging seriously with its shareholder or users.

We believe GungHo’s decline stems from its management structure. Because Morishita created the Company’s only hit, “*Puzzle & Dragons*” (P&D), those around him have continued to indulge and praise him despite releasing a string of failures afterwards.

Worse still, with no objections being raised by the largest shareholder, Taizo Son, much like the emperor from Hans Christian Andersen’s “the Emperor’s New Clothes”, top management has lost sight of reality, leading to a disregard for users and a loss of fans. This, we believe, is the naked truth for GungHo.

What the “naked emperor” needs is appropriate oversight and an environment in which candid opinions can reach management.





Shareholder Proposals

SC is convinced that creating such an environment is essential to unlocking shareholder value, so we have made the following shareholder proposals.

Review the shareholder structure

Proposal ① Acquire all shares held by Taizo Son

Review Capital Policy

Proposal ② Pay JPY16.9B in dividends

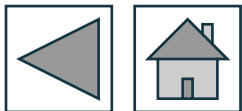
Proposal ③ Determine dividends at the AGM

Improve Corporate Governance

Proposal ④ Board of Directors to be chaired by an independent outside director

Proposal ⑤ The Chairperson of the Board of Directors be chosen from an independent outside director

Proposal ⑥ Disclose sales figures by individual title





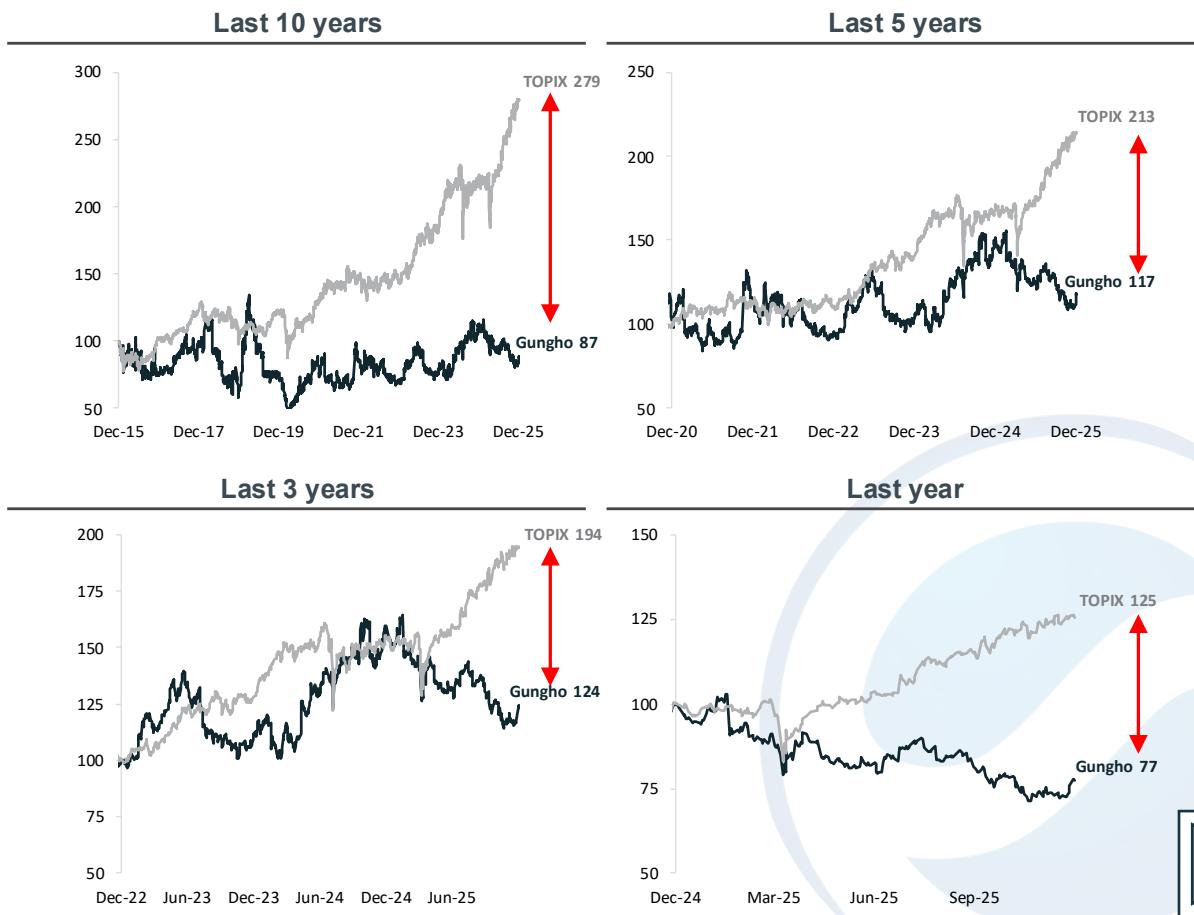
The slump in stock price has become the norm

Over the past 10 years, the share price of many listed companies, including Japanese game companies, have risen significantly.

In contrast, GungHo’s share price has **continued to stagnate both over the short and long-term.**

This is not a temporary downturn, but rather the result of a prolonged erosion in corporate value under the leadership of Morishita.

Price has been stagnant over short, medium and long-term



(Source: QUICK Workstation (Astra Manager) as of Dec 31,2025, all figures inclusive of dividends)





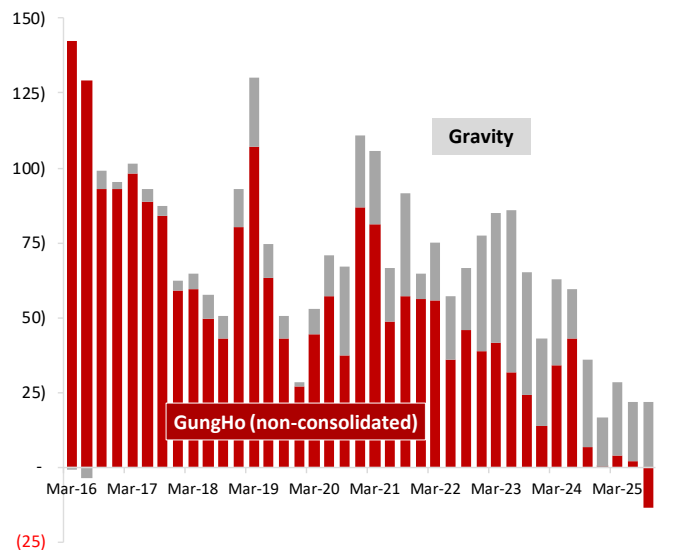
Declining profitability and increasing shareholder’s equity

GungHo’s standalone profit has been in a long-term decline since peaking during the heyday of *Puzzle & Dragons*. More recently, profits on a non-consolidated basis have fallen to a level where there are almost no earnings being generated.

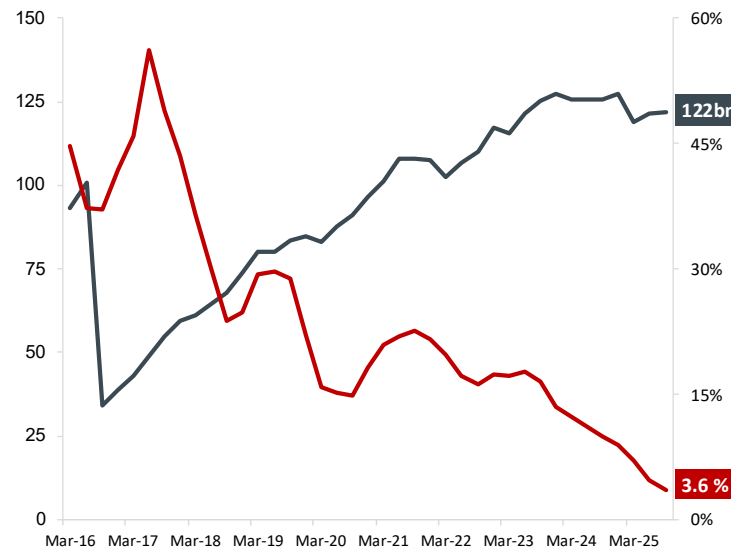
At the same time, as shareholder’s equity continues to build, and ROE has fallen to 3.6% (last four quarters through September 2025).

Long term profit decline while equity has increased. Leading to a decline in ROE

Quarterly Operating Profit (JPY 100m)



Shareholder Equity (JPY 100m) / ROE



(Source: QUICK Workstation (Astra Manager) and financial result briefing materials. Gravity operating profit in JPY estimated using sales conversion rate. GungHo non-consolidated figures approximated by deducting Gravity’s JPY denominated operating profit from consolidated amount. ROE is for most recent 4 quarters)



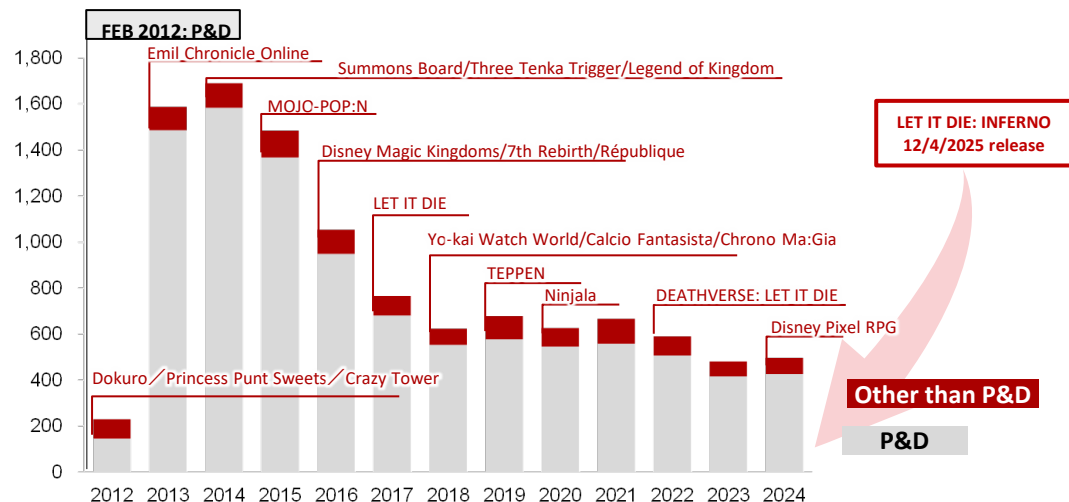


Massive spend on development that yield no results

For more than 13 years, GungHo has poured roughly JPY 10 billion a year into game development in an effort to build a new revenue engine to succeed *Puzzle & Dragons*.

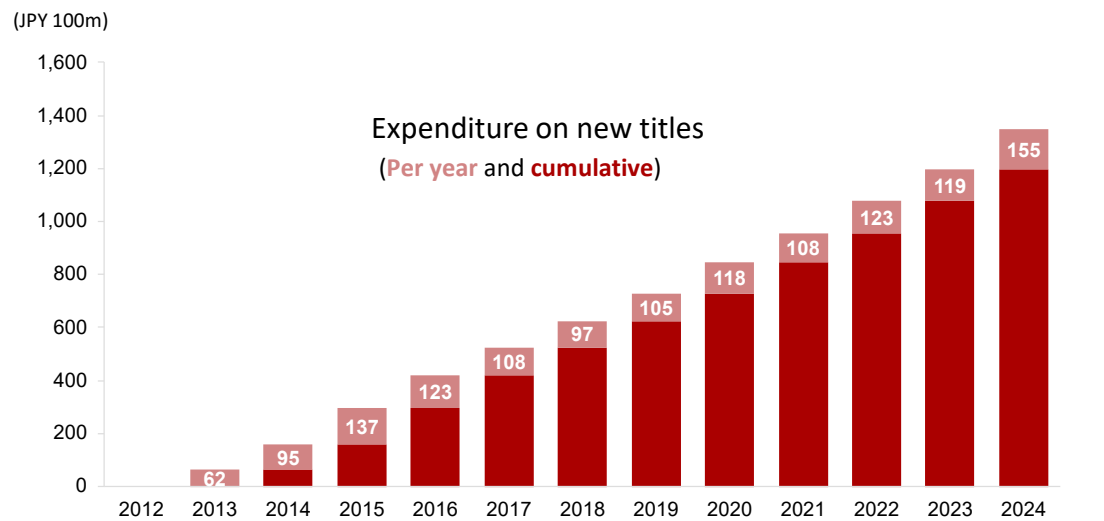
Yet not a single stable successor has emerged.

No new revenue pillar to succeed P&D and overall revenue declining



(Source: QUICK Workstation (Astra Manager) and annual securities reports. Listed titles exclude Puzzle & Dragons and Ragnarok related titles

Spent approx. JPY 10Bn annually on developing games for over 10 years



(Source: Annual securities reports. Costs incurred for new titles estimated by 20% of personnel expense, 50% advertising, 100% outsourcing, 50% other expenses and 100% of impairment from GungHo's stand along SG&A since 2013

Even major titles such as Ninjala and LET IT DIE have failed to develop into businesses that meaningfully support earnings. Despite massive and prolonged investment, there is no evidence of returns commensurate with the capital deployed.





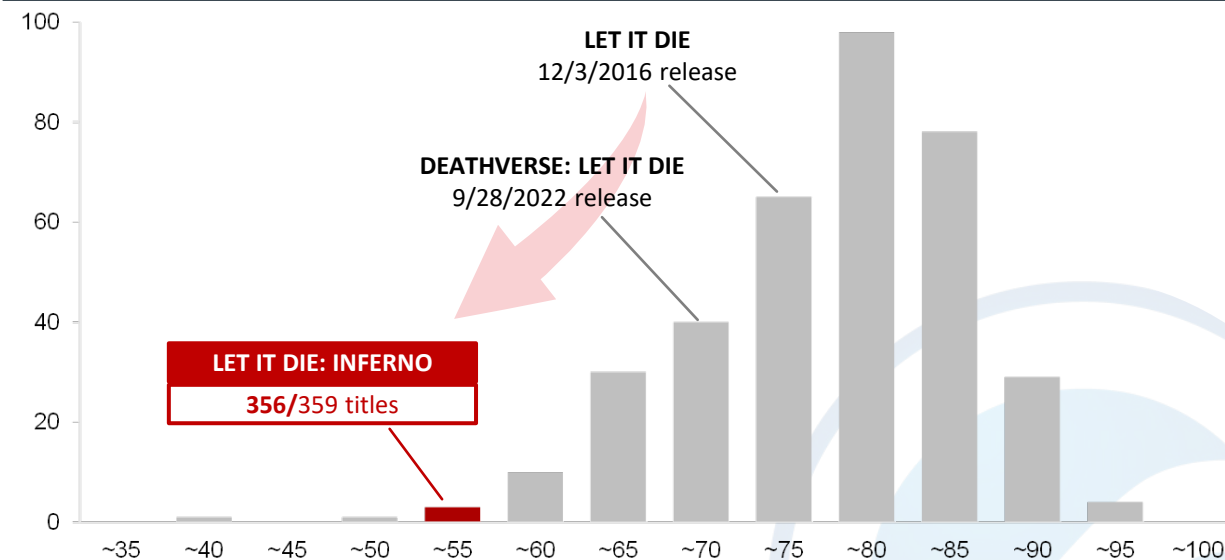
“LET IT DIE: INFERNO” Dead On Arrival

LET IT DIE: INFERNO, a major new title released on December 4, 2025, has so severely underperformed that even GungHo itself has acknowledged it as a disappointment.

The numbers are stark. On Metacritic, a leading game review aggregator, the title holds a Metascore of just 54, **ranking it a damning 356th out of the 359 PC titles released and reviewed in 2025.**

Metacritic primarily reviews major titles of which it received a scathing review ranking 356 out of 359 titles

Distribution of Metacritic scores for PC games released in 2025



(Source: Metacritic. Accessed 01/20/2026)





Market: "GungHo's Business Value is "zero"

Value ≈ cash

Reason for discount

GungHo's valuation ≈ the value of its cash

A company's market cap is determined by two components: the cash it currently holds (net cash) and the value of future cash flows it is expected to generate (enterprise value).

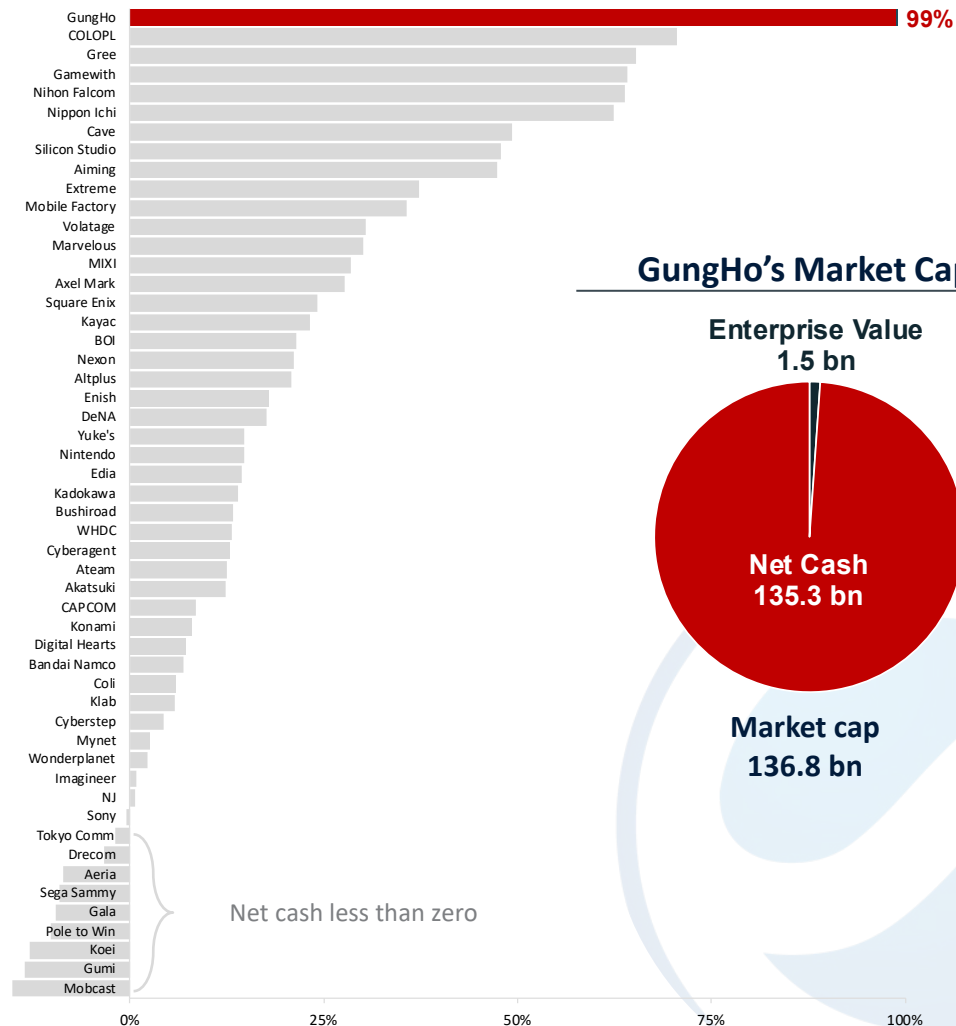
At GungHo, **net cash accounts for an extraordinary 99% of its market cap — the highest ratio among all publicly listed gaming companies.** This means the market is assigning almost no value to GungHo's future prospects.

Put bluntly, GungHo is seen as a company with no credible future, i.e. "a Company that has cash but offers no confidence for another success".

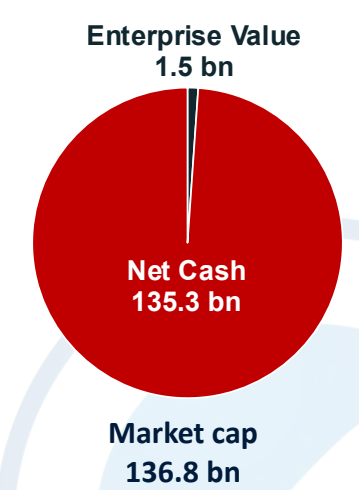
(Source: QUICK Workstation (Astra Manager) as of December 31, 2025)



Market view – "So much cash, so little prospects"



GungHo's Market Cap



Net cash less than zero





Market: "GungHo's Business Value is "zero"

Value ≈ cash

Reason for discount

Reason for the discounted valuation

As Chief Development Officer, Morishita used more than JPY 100B in capital over a 13-year period to launch major titles such as "Ninjala" and "LET IT DIE: INFERNO".

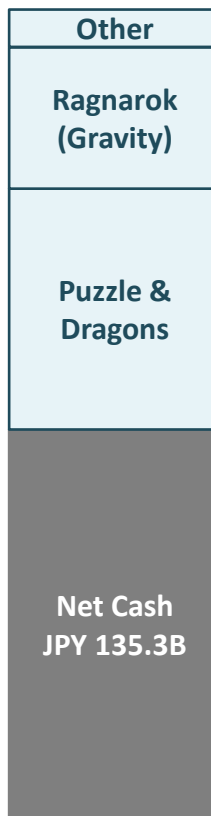
Yet none of these titles has become a sustainable earnings pillar — this failure has been repeated time and again.

Despite this abysmal track record, there is no evidence the management structure or development decision-making has been fundamentally reassessed.

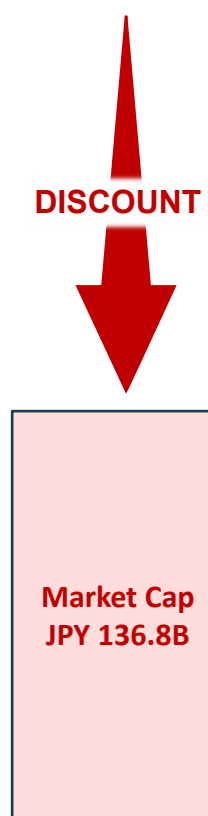
As a result, a prevailing market narrative has taken hold: **"No matter how much capital is invested, it will be squandered."**

Market view – Morishita unable to use GungHo's assets effectively

Intrinsic value



Current value



DISCOUNT

- ✓ JPY 100 B spent → Zero hits
- ✓ 13 years → Zero hits
- ✓ Lacks investment discipline for developing games
- ✓ Ninjala – a failure
- ✓ LET IT DIE – newest title failed





Largest shareholder wielding overwhelming influence

Taizo Son holds approx. 22.1% of voting rights (120,065 voting rights) and is the largest shareholder. Depending on how he casts those votes, he holds enough sway to determine the outcome of numerous resolutions, including **appointing Morishita as the new board chair and the fate of shareholder proposals.**

Son's vote would overturn the results of many proposals at the AGM

Impact if Son changes his vote

Meeting Proposal	Actual Results			With vote change		
	Son	Result	Favor for	Son	Result	Favor for
Company proposal						
AGM March 2025						
① Elect Director (Kazuki Morishita)	For	= Pass	74.7	Against	= Not pass	49.0
... ..						
EGM September 2025						
① Change requirement to dismiss directors	For	= Pass	99.3	Against	≠ Pass	72.2
Shareholder proposal						
AGM March 2025						
③ Explain reason for change in base remuneration	Against	= Not pass	38.9	For	= Pass	64.7
④ Improve performance-linked system	Against	= Not pass	15.9	For	≠ Not pass	41.7
⑤ Stock option plan	Against	= Not pass	34.3	For	= Pass	60.0
⑥ Pay dividends	Against	= Not pass	20.6	For	≠ Not pass	46.3
⑦ Determine dividends at AGM	Against	= Not pass	49.4	For	= Pass	75.2
⑧ Cancel treasury shares	Against	= Not pass	44.1	For	= Pass	69.8
EGM September 2025						
② Dismiss Kazuki Morishita as Director	Against	= Not pass	28.5	For	= Pass	55.6

(Source: Company interim reports. Approval rate calculated ignoring the impact of abstentions)





Exercise of voting rights different from foreign investors

Taizo Son has acted as a so-called “stable shareholder”, consistently voting in favor of management proposals and against shareholder proposals.

Even on the proposals we made that were **SUPPORTED by the vast majority of foreign institutional investors, Son voted AGAINST**. Moreover, he has submitted proxies without holding meetings or engaging with management and has not engaged in any constructive dialogue with management.

The presence of such a stable shareholder removes any sense of accountability or tension for GungHo’s management and has ultimately contributed to the erosion of shareholder value.

Opposed the proposal even though most foreign investors voted for

Exercise of voting rights for FSP 7 (Determine dividends at AGM) at 2025 AGM

BlackRock (Vote for)	FSBA	Norges Bank	BNY Melon
Vanguard	AB	LGIM	T. Rowe
Fidelity	CaIPERS	ISS	Wellington
Allianz	CaSTRS	State Street* (Against)	Invesco
Godman Sachs	DFA	Taizo Son	Manulife
Amundi	UBS	J.P. Morgan (Not disclosed/abstain)	Capital

Source – Compiled by SC based on voting results from institutional investors.

* State Street’s favor for rate for shareholder proposals remained around 6.5% from July 1, 2024, to June 30, 2025





Risk of largest shareholder continuing to sell shares

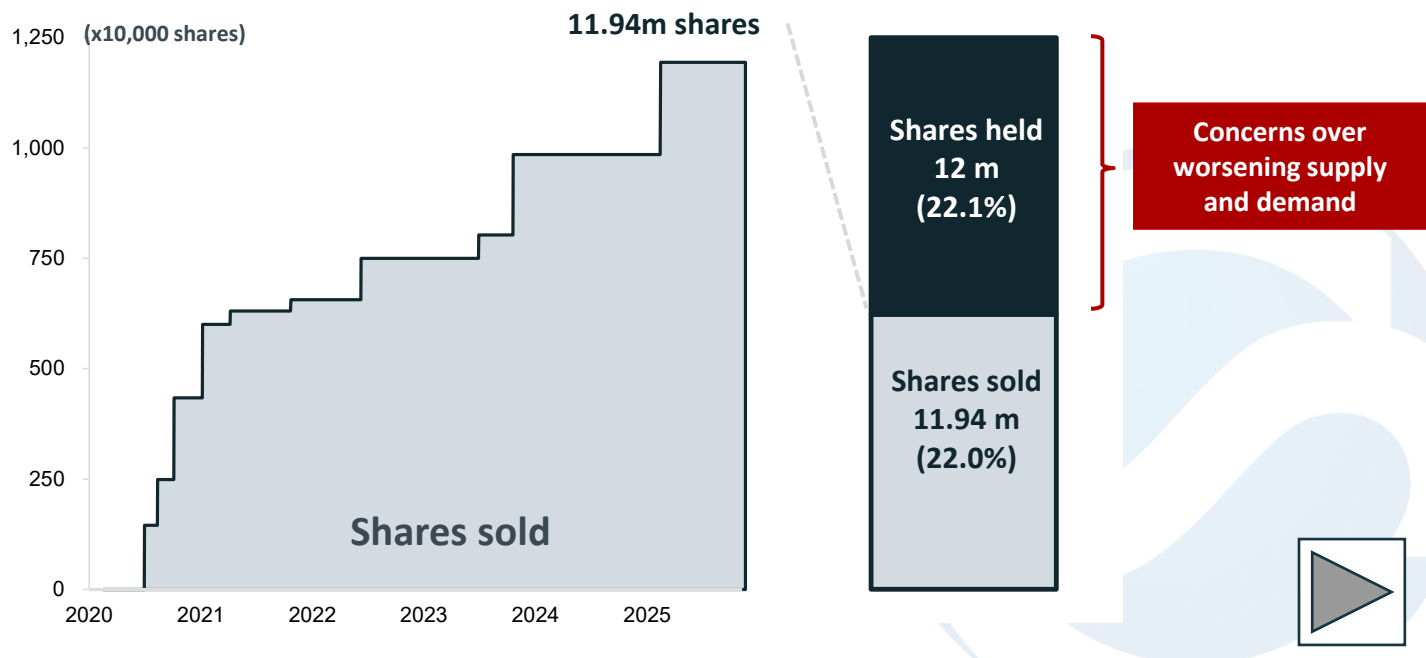
After stepping down from the board, Son began selling down his shareholdings and has already disposed of approx. 11.94 million shares. He still holds approx. 12 million shares representing roughly 22.1% of the voting rights with little clarity on any further sales. This **overhang creates a supply risk for other shareholders and has the potential to weigh on GungHo's share price.**

As such, SC has **proposed a share buyback targeting the 12,006,500 shares held by Son through his asset management company** (valued at approx. JPY 30.2 B as of the end of Dec 2025.)

If Son accepts this share buyback, it will restore much-needed discipline to management, remove persistent supply overhang concerns for other shareholders, and improve GungHo's capital efficiency.



Son has intermittently sold shares since stepping down from a director (Mar 2020)





Lax management

Excessive cash levels that invite lax management

Since the launch of P&D, GungHo has continued to build cash and as of December 2024 held approx. JPY 84.6B on a standalone basis and approx. JPY 60B at its consolidated subsidiaries. **Even if GungHo continued its lax management and wasted capital for more than 10 years, the cash would still not be exhausted.**

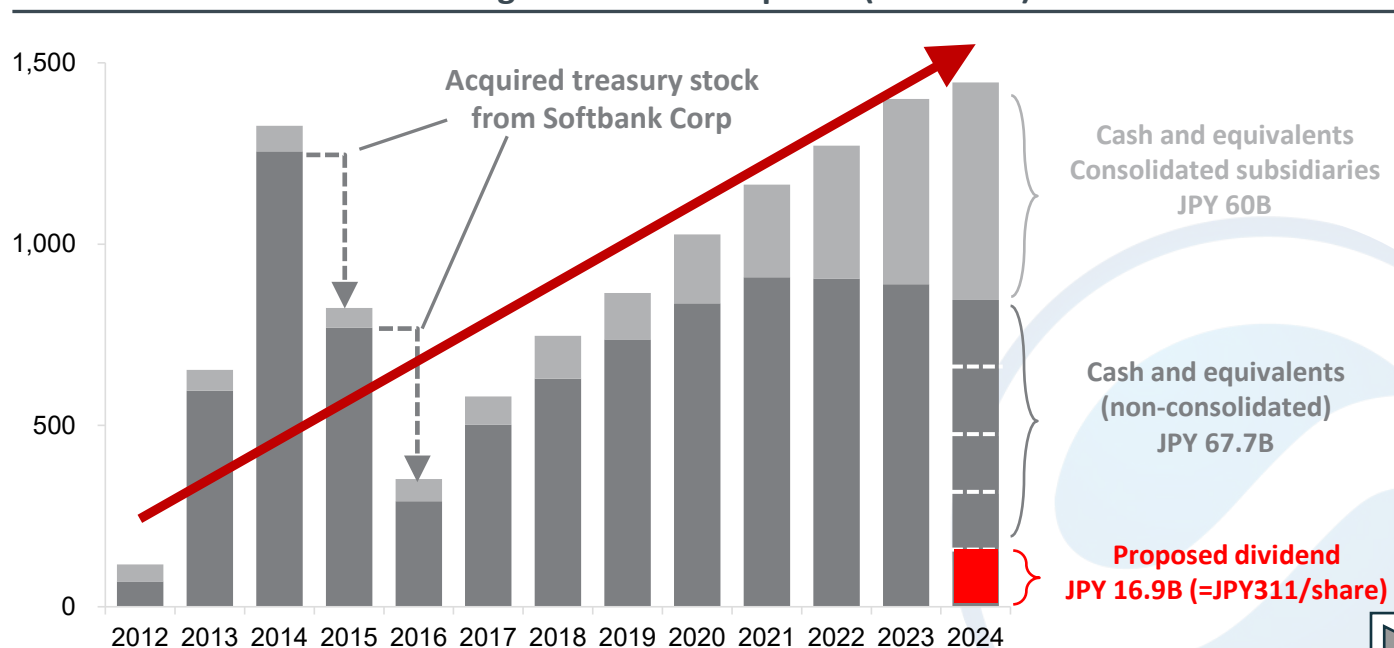
To restore financial discipline without impairing business operations, we have submitted a shareholder **proposal calling for a dividend of JPY 16.9B (JPY 311/share) which is equal to about 20% of the standalone cash.**

In addition, SC has **proposed that dividends should not be determined solely by the Board, but should in principle, be approved at the AGM.** The decision regarding the appropriate amount of dividend and cash levels should reflect shareholders' views through the exercise of voting rights.



Cash has been steadily increasing

Change in cash and deposits (JPY 100m)





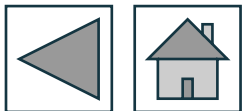
Ambiguous management responsibilities

Effective Feb 1, 2026, GungHo reshuffled its leadership, with Morishita moving from Rep. Director and President to Chairperson of the Board, and Kazuya Sakai promoted from Director to Representative Director, President and CEO. On the surface, this appears to dilute the authority that had been overly concentrated in Morishita.

In reality, however:

- the Chairperson (Morishita) is positioned to receive higher compensation than the “Representative” Director and President (Sakai)
- Despite stepping down as President ostensibly to “devote himself fully to overseeing game development,” he has retained the Chairman role.

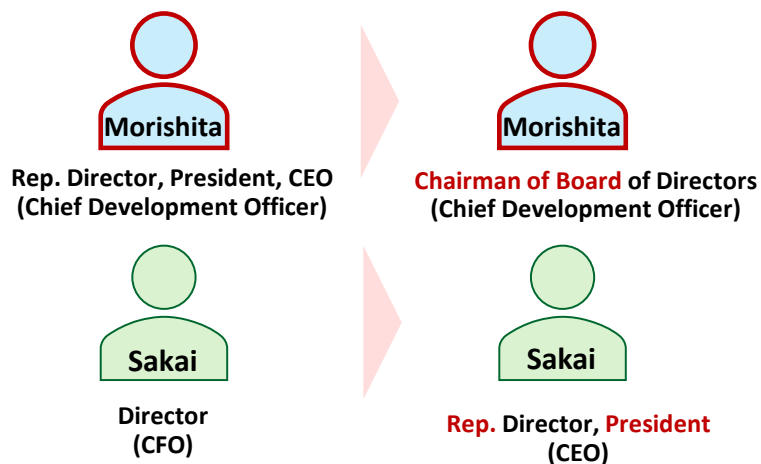
Taken together, this amounts to little more than a reshuffling with **Morishita continuing to rule from behind the scenes, which only serves to further obscure management accountability.**





Chairman pay exceeds Rep. Director pay creating uncertainty regarding who is responsible

Change in directors



(Source: GungHo – [Explanatory materials](#).)

Change in remuneration

(Thousands of Yen)

Position	Base remuneration	Performance-limited compensation (STI)	Stock-based remuneration (LTI)	Total amount
【Fiscal 2024 payouts - STI: consolidated operating profit of 17.49 billion yen x 0.5%; LTI: actual payout】				
Representative Director and President (Next Chairman)	153,904	48,100	86,372	288,376



Example 1 : If 2024 results are replaced by the new system

【STI : Profit attributable to owners of the parent company - 11.17 billion yen x 0.5 %, LTI : payout rate 0 %】

Chairman of the Board	84,000	23,736	0	107,736
Representative Director and President (New President)	65,000	11,170	0	76,170

Example 2: Strong performance scenario

【STI : Profit attributable to owners of the parent company - 20.0 billion yen, LTI : comparative growth rate assumed at 100 %】

Chairman of the Board	84,000	85,000	85,000	254,000
Representative Director and President (New President)	65,000	40,000	40,000	145,000

Chairman pay



Rep. Director pay



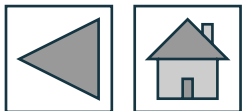


Shareholder proposal

Under the current structure, the executive who is supposed to be subject to oversight also controls the board’s agenda and proceedings. This makes it inherently difficult for the board to rigorously scrutinize and correct failures of management, including flawed strategy, the prolonged absence of hit titles, and the inability to convert substantial investments into tangible results.

For this reason, SC submitted **shareholder proposals calling for both the chair of the board meetings and the Chairperson of the Board to be appointed from among independent outside directors.**

Particularly in game development, where maximizing creativity including Morishita’s is critical for success, separating execution from independent oversight is essential. SC believes this clear division would strengthen both functions and ultimately contribute to enhancing shareholder value.





Illusory success and “naked” achievements






GungHo is also notably opaque in its disclosures. Many game companies publish **sales figures for “paid” titles**, enabling investors and shareholders to evaluate both revenue performance and user reception.

By contrast, GungHo discloses little beyond **download counts for “free-to-play” titles**. Ninjala, for instance, they tout its high number of “(free) downloads,” despite having failed to monetize meaningfully. Similarly, for LET IT DIE: INFERNO, none of the core metrics needed to assess the business, such as sales or active user numbers are provided.



Market has the lowest expectations for GungHo

Comparison of disclosures for major titles

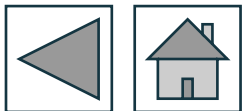
<p>CAPCOM </p>	<ul style="list-style-type: none"> • Coverage: Major paid titles • Content: Sales volume per fiscal year and cumulative sales
<p>Konami </p>	<ul style="list-style-type: none"> • Coverage: Title by console games/mobile games • Content: Cumulative sales volume/download volume
<p>Nintendo </p>	<ul style="list-style-type: none"> • Coverage : Major paid titles • Content : Cumulative sales volume
	
<p>GungHo </p>	<ul style="list-style-type: none"> • Coverage: Free download titles (P&D, Ninjala etc.) • Content: Cumulative download count • (Gravity discloses info regarding Ragnarok-related titles)



Shareholder proposal

Against a backdrop of weak disclosure and steadily deteriorating performance, GungHo's positive messaging around specific titles such as Ninjala rings hollow. **Without concrete numbers, it will be difficult to gain Investors' understanding and trust.**

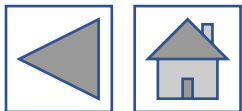
In order to correct this situation, SC submitted a **shareholder proposal calling for the disclosure of sales figures for its major titles and series.**





Revisions

01.29.2026 Campaign website opened





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