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# Opinion on GungHo Online Entertainment, Inc.'s Explanatory Materials Opposing Our Shareholder Proposal

August 2025  
Strategic Capital, Inc.

Director-General, Kanto Local Finance Bureau (FIBO) No 2786

※ As of July 31, 2025, Strategic Capital and the Funds managed by us (hereinafter referred to as “we” or “SC”) hold approximately 8.5% of GungHo Online Entertainment, Inc. (“GungHo”). We convened the Extraordinary General Meeting (“EGM”) to be held on Sept 24, 2025, and made shareholder proposals for the meeting.

※ This presentation is composed of analysis of Strategic Capital, information from our activist activities and release from companies. Information and documents in this presentation are composed of materials we believe to be trusted and latest, however we do not guarantee the accuracy, completeness etc. We are not responsible for any judgement using information in this presentation. All copyrights and other intellectual property rights belong to us. Reproducing all or any part of the contents of this site is prohibited without author's permission. Abbreviations, etc. used in this document shall be the same as those used in <https://stracap.jp/https://stracap.jp/english/3765-GUNGHO.pdf> unless otherwise noted.

# Regarding Morishita's Significant Contributions to Company performance

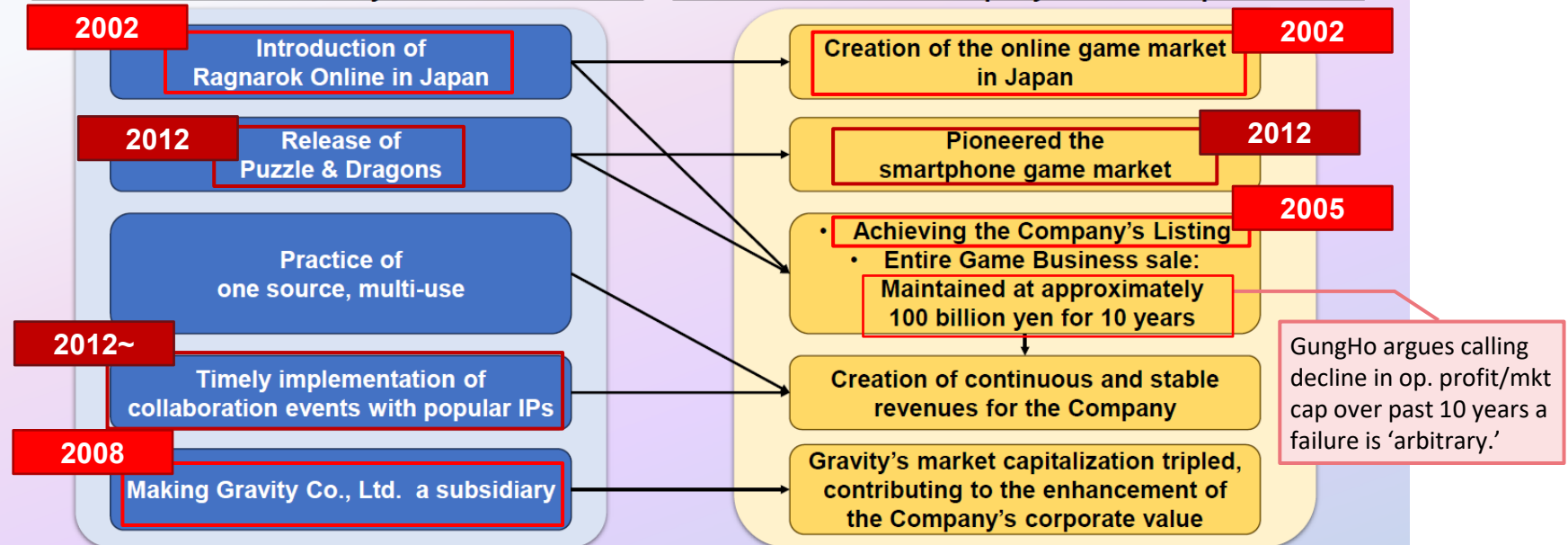
- The arguments listed are Morishita's initiatives from more than 10 years ago, and they fail to demonstrate any contribution by he is making to GungHo's present or future

## President Morishita has contributed significantly to the Company's business performance



### Initiatives Demonstrated by President Morishita

### Contribution to the Company's business performance



At the Company's annual general meeting of shareholders held in March 2025, President Morishita was reappointed as a director. This proves that President Morishita's long-standing contribution to the Company is widely supported by shareholders.

2

(Source: Excerpt from GungHo's "Summary of the Explanatory Materials Regarding Our Opinion on the Proposal No. 2 of the Extraordinary General Meeting of Shareholders" (August 15, 2025))

# Regarding Impairment of Corporate Value if Morishita is Dismissed

- “The ‘significant decline in revenues,’ cited as a major factor affecting corporate value, is a current issue that GungHo is facing, and not something that would arise “if Morishita is dismissed.”

## Risk of Impairment of Corporate Value if President Morishita is Dismissed



### Impacts of President Morishita's Dismissal

President Morishita's leadership and ability to unite the Company, especially in game development, would be lost.

Loss of the positive influence on employees that has been created by President Morishita's approach and attitude toward game development.

### Negative Impact on Corporate Value

Operating profit decreased 75% from JPY 72.4B to 17.4B over past 10 years

Significant decline in revenues of the Company's major game titles such as Puzzle & Dragons.

Profit decreased 58% for first 6 month of 2025 compared to same period last year.

Disruption and uncertainty in the game development department may result in the loss of game production personnel and a decline in morale.

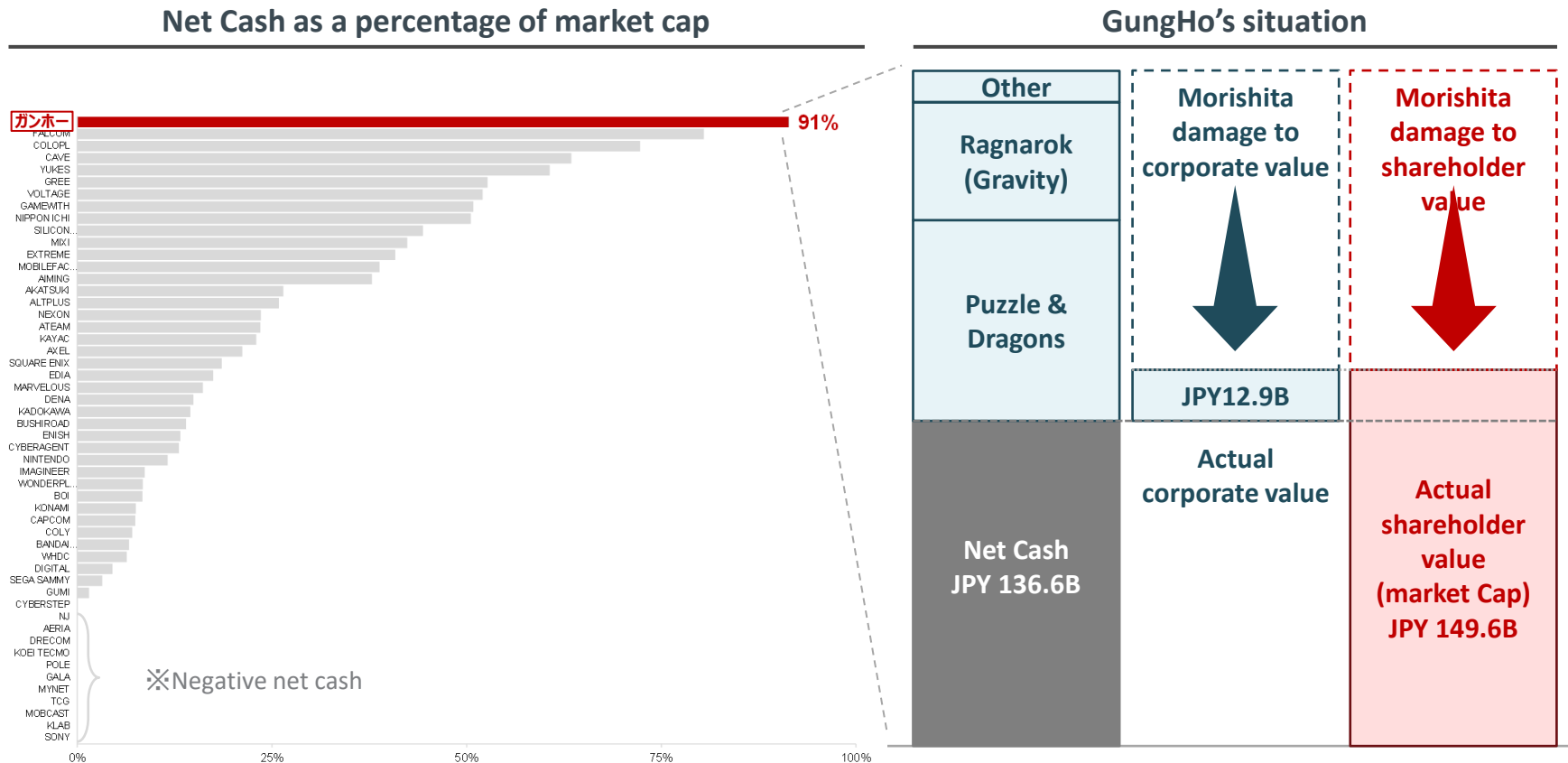
**Strategic Capital's Proposal is irresponsible, as it neither specifies the management structure following President Morishita's dismissal nor outlines any measures whatsoever to address the negative impacts that could result from such dismissal.**

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(Source: Excerpt from GungHo's "Summary of the Explanatory Materials Regarding Our Opinion on the Proposal No. 2 of the Extraordinary General Meeting of Shareholders" (August 15, 2025))

# “(Reference) The dismissal of Morishita will not impair corporate value.”

- GungHo has the highest net cash to market cap among listed gaming companies (approx. 90%)
- Given Morishita has already eroded GungHo’s value, the current valuation is sustained by net cash that is unrelated to management. Therefore, the claim that his dismissal would damage corporate value is unfounded.



(Source: QUICK Workstation (Astra Manager))



Strategic Capital

株式会社 ストラテジックキャピタル



## Views on individual issues

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# Opinion on GungHo Board's Rebuttal ①

## Strategic Capital's Argument

1

Responsibility for failing to increase shareholder value, as evidenced by a decline in market capitalization and operating income, as well as inferior stock performance compared to major game companies.

## The Company's Rebuttal

- **A** President Morishita has contributed significantly to the Company's business performance, and Strategic Capital's argument is based on a lack of understanding of the role President Morishita has played in the growth of the Company.
- **B** Strategic Capital's comparisons of our operating income and the stock price performance of major Japanese game companies are arbitrary and not based on the state of the business of the Company.

### A: "President Morishita has contributed significantly to the Company's business performance"

- This is from more than 10 years ago. The fact that the Company is failing to meet shareholder and user expectations should be taken seriously.

### B: "Comparison of our operating income... are arbitrary and not based on the state of business of the Company"

- If "maintaining sales of JPY 100 B for more than 10 years" is to regarded as Morishita's contribution to performance, then the 75% decline in profit over 10 years should also be taken into account.
- President Morishita is the head of GungHo, and it is only natural that he should be responsible the performance declines.

### C: "Comparison of stock price ... are arbitrary and not based on the state of business of the Company"

- Morishita receives more compensation than major game companies, and has introduced a performance-linked remuneration system tied to operating profit that imitates Nintendo
- As compensation is modeled after Nintendo's, claims that it is 'arbitrary and not based on the state of business of the Company' is unfounded."

(Source: Excerpt from GungHo's "Summary of the Explanatory Materials Regarding Our Opinion on the Proposal No. 2 of the Extraordinary General Meeting of Shareholders" (August 15, 2025))

## (Reference) Remuneration imitates Nintendo, a "major game company"

- In 2023, GungHo introduced a performance-linked remuneration system modeled after Nintendo, having determined that such a framework was valuable in light of the company's business circumstances. As a result, Morishita's pay has consistently remained at the high end relative to other gaming companies.
- Despite this, to argue that comparing performance and stock price with major gaming companies is 'arbitrary and not based on the state of business of the Company' is a double standard."

### GungHo (introduced March 2023)

To raise awareness of performance improvement,  
the performance-linked remuneration per **executive**  
director

**shall be** calculated using the following formula

**with** consolidated operating profit **used** as the index

Consolidated operating profit x **0.5** %  
x Point for each director / Total director points

### Nintendo (Introduced June 2007)

To raise awareness of performance improvement,  
the performance-linked compensation per director  
(**excluding audit committee members**)

**is** calculated using the following formula,

**using** consolidated operating profit as the index

Consolidated operating profit x **0.2** %  
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

## Opinion on GungHo Board's Rebuttal ②

### Strategic Capital's Argument

2

Responsibility for turning the Company into a "one-hit" game company by failing to produce the subsequent hit game after Puzzle & Dragons.

### The Company's Rebuttal

- Puzzle & Dragons is a globally rare game title that has maintained stable popularity and revenue for 13 years, serving as a pillar of the Company's revenue. The long-term success of Puzzle & Dragons is the result of continuous updates and creative innovations under President Morishita's leadership. **A**
- The Company also generates revenue from game titles other than Puzzle & Dragons. **B** President Morishita is involved in all stages of new game development as the chief executive in charge, ensuring the continuous development and release of game titles. **C**

#### A: "long-term success of P&D is the result of continuous update and creative innovations under Morishita's leadership"

- Morishita, who receives over JPY 300m in pay as GungHo's CEO, cannot use the long-term success of 'Puzzle & Dragons' as an excuse for the overall stagnation of the company.

#### B: "generates revenue from game titles other than Puzzle & Dragons"

- The stagnating performance stems not only from the slowdown of Puzzle & Dragons but also from the inability to generate sufficient revenue from other titles. As executive, Morishita bears responsibility for this.

#### C: "is involved in all stages of new game development... ensuring the continuous development and release of game titles"

- Fulfilling his duties as a creator does not absolve Morishita of his responsibilities as an executive."

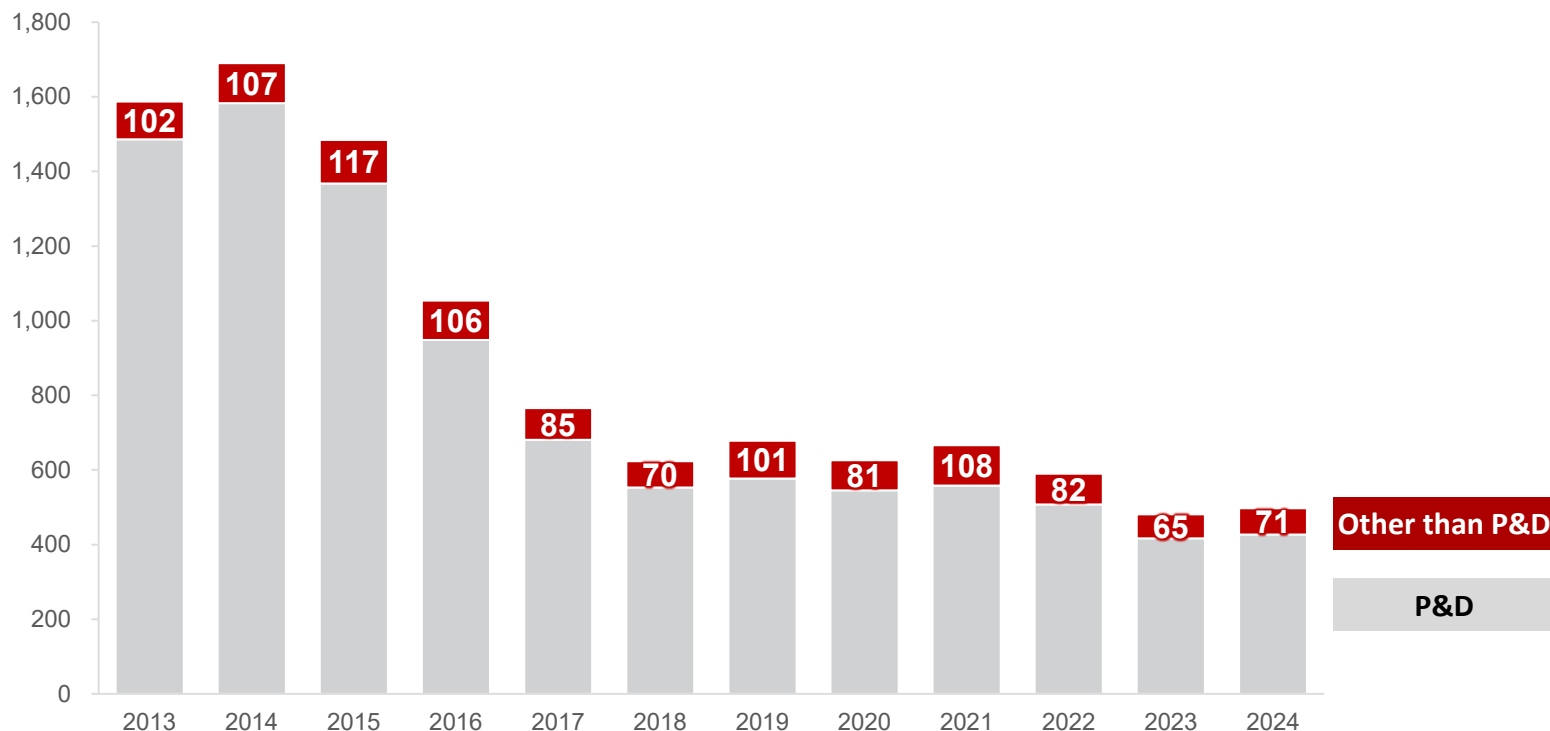
(Source: Excerpt from GungHo's "Summary of the Explanatory Materials Regarding Our Opinion on the Proposal No. 2 of the Extraordinary General Meeting of Shareholders" (August 15, 2025))



## (Reference) Revenue other than P&D is small

■ Earnings remain dependent on *Puzzle & Dragons*. Contributions from other titles remain negligible.”

GungHo standalone sales trend (JPY 100 million)



(Source: QUICK Workstation (Astra Manager), securities reports)

## Opinion on GungHo Board's Rebuttal ③

### Strategic Capital's Argument

- 3 The level of the market capitalization of the Company shows that President Morishita is not valued by the market.

### The Company's Rebuttal

- President Morishita was <sup>A</sup>reappointed as a director at the ordinary general meeting of shareholders held in March 2025 and has received broad support from the Company's shareholders.

#### A: "reappointed as director ... has received broad support from the Company's shareholders"

- SC's opinion concerns the shareholder value of GungHo. The Board's response is missing the point.
- The problem is the low market assessment, which includes investors who are not GungHo's shareholders.
- The market sees GungHo as worth little more than its net cash, with no confidence in its future prospects. This fact must be recognized.

(Source: Excerpt from GungHo's "Summary of the Explanatory Materials Regarding Our Opinion on the Proposal No. 2 of the Extraordinary General Meeting of Shareholders" (August 15, 2025))

# Opinion on GungHo Board's Rebuttal ④i & ii

## Strategic Capital's Argument

4

President Morishita is unqualified to serve as a director for the following reasons:

- i. Increased compensation
- ii. Claiming that "Summons Board" and "Ninjala" are hits
- iii. Refusal to meet with Strategic Capital
- iv. No specific measures have been disclosed regarding "Action to Implement Management that is Conscious of Cost of Capital and Stock

## The Company's Rebuttal

- Each reason is solely Strategic Capital's subjective opinion.
  - i. Given President Morishita's contribution to the Company's performance, **the amount of remuneration for President Morishita is sufficiently reasonable**, and the Company's determination of remuneration follows transparent and objective procedures.
  - ii. Evaluating the value of game titles based solely on their short-term contributions to the enhancement of shareholder value **fails to correctly recognize the Company's business policy or management strategy**.
  - iii. President Morishita and the Company handle dialogue with shareholders and investors based on their internal division of roles (**Mr. Sakai, Director and CFO, and outside director, held multiple meetings with Strategic Capital**).
  - iv. Non-disclosure of specific measures regarding "Action to Implement

### A: "Amount of remuneration of President Morishita is sufficiently reasonable"

- The performance-linked compensation, modeled after Nintendo, a major gaming company, and tied to operating profit, is "are arbitrary and not based on the state of business of the Company" and based on the actual payment appears to be noting more than an increase in remuneration making it wholly unreasonable.

### B: "Evaluating the value of game titles based solely on their short-term contributions to the enhancement of shareholder value"

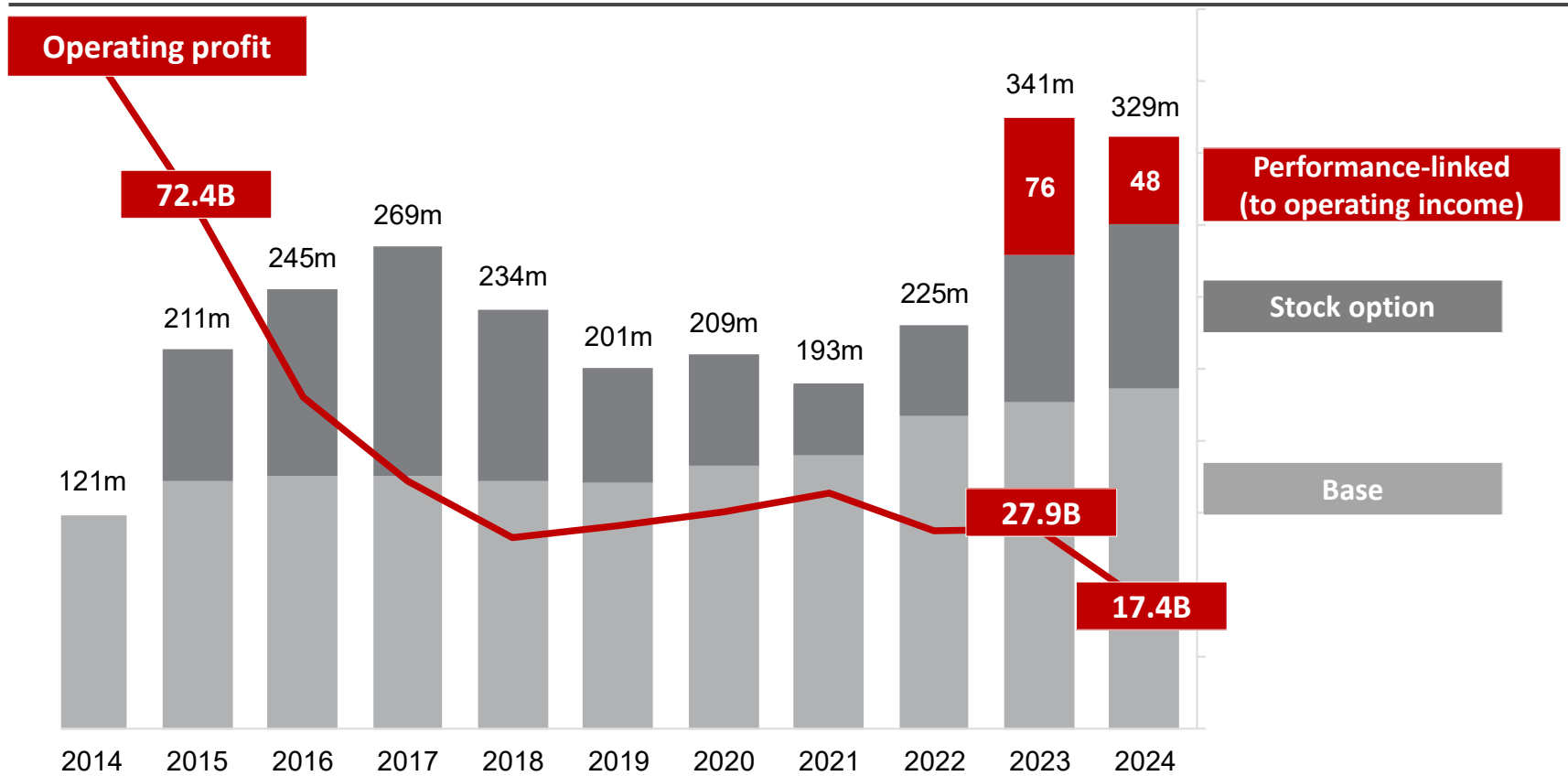
- SC considers these titles not to be hits, sinceas the market recognizes their limited contribution to earnings is likely to persist and hence will not contribute to the enhancement of shareholder value.

(Source: Excerpt from GungHo's "Summary of the Explanatory Materials Regarding Our Opinion on the Proposal No. 2 of the Extraordinary General Meeting of Shareholders" (August 15, 2025))

# (Reference) Performance-linked compensation increased actual compensation

- The 'performance-linked compensation' introduced in 2023 is essentially nothing more than a pay hike, disregarding performance.

Morishita's remuneration



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

# Opinion on GungHo Board's Rebuttal ④iii & iv

## Strategic Capital's Argument

as a director for the following reasons:

- i. Increased compensation
- ii. Claiming that “Summons Board” and “Ninjala” are hits
- iii. Refusal to meet with Strategic Capital
- iv. No specific measures have been disclosed regarding “Action to Implement Management that is Conscious of Cost of Capital and Stock Price”.

## The Company's Rebuttal

the amount of remuneration for President Morishita is sufficiently reasonable, and the Company's determination of remuneration follows transparent and objective procedures.

- ii. Evaluating the value of game titles based solely on their short-term contributions to the enhancement of shareholder value **fails to correctly recognize the Company's business policy or management strategy.**

- iii. **A** President Morishita and the Company handle dialogue with shareholders and investors based on their internal division of roles **(Mr. Sakai, Director and CFO, and outside director, held multiple meetings with Strategic Capital).**

- iv. **B** Non-disclosure of specific measures regarding “Action to Implement Management that is Conscious of Cost of Capital and Stock Price” is due to the unique characteristics of the industry to which the Company belongs. **The Company discusses capital costs at Board of Directors meetings and aims to achieve capital efficiency that exceeds those costs.** **C**

### A: “Morishita and the Company handle dialogue with shareholders and investors based on their internal division of roles”

- Even though GungHo claims to comply with the Corporate Governance Code and SC's reasonable requests are fully consistent with it, President Morishita and certain outside directors have refused to meet.

### B: “non-disclosure of specific measures...is due to the unique characteristics of the industry”

- Responses differ within the gaming industry, and citing industry characteristics doesn't excuse the failure to disclose policy.

### C: “Company discusses capital costs at Board meetings and aims to achieve capital efficiency that exceed costs.

- This is no excuse for failing to disclose how it aims to achieve cost of capital and capital efficiency targets.

(Source: Excerpt from GungHo's “Summary of the Explanatory Materials Regarding Our Opinion on the Proposal No. 2 of the Extraordinary General Meeting of Shareholders” (August 15, 2025))

## Opinion on GungHo Board's Rebuttal ⑤&⑥

### Strategic Capital's Argument

5

There are only two truly independent outside directors

6

Failing to provide shareholders with important information regarding the independence of outside directors

### The Company's Rebuttal

- All four of the Company's outside directors **satisfy the independence standards established by TSE and the Company.** **A**

- **B** The Company **duly discloses** information regarding the independence of outside directors in accordance with statutory provisions.

#### A: "satisfy the independence standards established by the TSE and the Company"

- Just as GungHo created its own rules after deeming the TSE's independence standards insufficient to ensure real independence, SC has concluded that, irrespective of the TSE's criteria, certain outside directors are not truly independent given their particular circumstances.

#### B: "duly discloses information regarding the independence of outside directors in accordance with statutory provisions"

- Statutory provisions only set the bare minimum standard, where crossing that line constitute a breach of law."
- Accordingly, it is inappropriate to claim 'adequacy' on the basis of disclosure that only meets the *minimum* required by law.

(Source: Excerpt from GungHo's "Summary of the Explanatory Materials Regarding Our Opinion on the Proposal No. 2 of the Extraordinary General Meeting of Shareholders" (August 15, 2025))