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To unlock the shareholder value of GungHo Online Entertainment

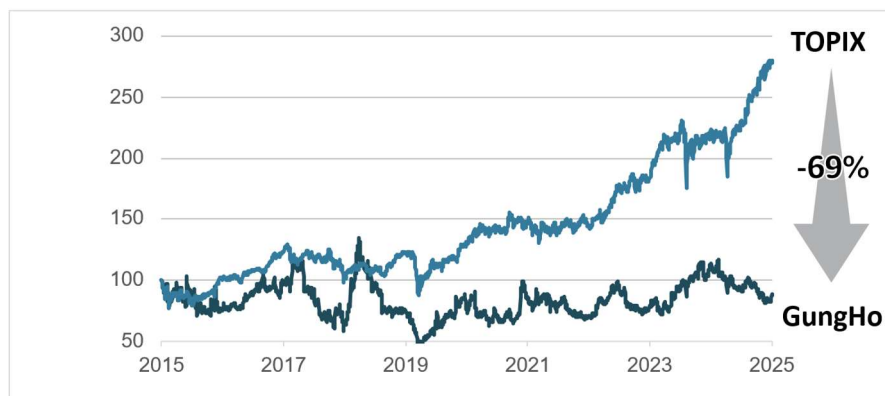
GungHo Online Entertainment Inc. (3765)

As of January 31, 2026, Strategic Capital, Inc. and the funds it manages (“SC”) held approx. 9% of GungHo Online Entertainment Inc. (“GungHo”), the developer and operator of games such as “Puzzle & Dragons” (“P&D”).

Shareholder value eroded across the short, medium, and long term

Over the past decade, the share prices of many listed companies in Japan, including game companies, have risen significantly. However, GungHo has consistently underperformed, lagging significantly relative to the TOPIX over every period: 10 years: minus 69%, over 5 years: minus 45%, over 3 years: minus 36%, and over 1 year: minus 38%¹, and continues to languish.

Stock performance last 10 years



This is not a temporary slump. Rather, it is the result of long-term destruction of corporate value under the management of Kazuki Morishita, who served as President and Representative Director for 22 years until January 31, 2026.

Profit levels have declined over the long term since peaking during the heyday of “Puzzle & Dragons” (P&D) and recently have fallen to a level where the company is generating almost no profit on a non-consolidated basis. Meanwhile, shareholders’ equity has continued to accumulate, and the company’s most recent ROE has declined to 3.6%.²

Source - QUICK Workstation and Securities Reports. Unless otherwise indicated, all figures presented refer to consolidated figures.

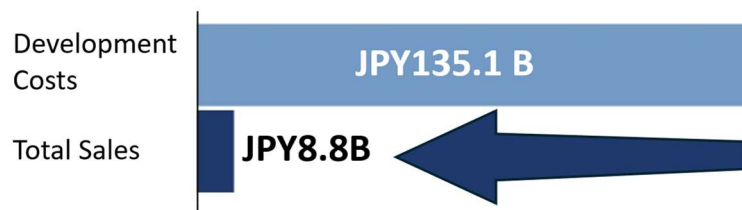
¹ GungHo’s share price and TOPIX both calculated with the closing prices on each periods base date (Dec 30, 2015; Dec 30, 2020; Dec 30, 2022; and Dec 30, 2024) set as 100. All are inclusive of dividends.

² As of Sept 30, 2025. ROE is calculated by dividing the sum of net income for the latest four quarters by the average shareholders’ equity over the same period.

JPY 135.1 B invested in development – total sales of only JPY 8.8 B

In search of a revenue source to follow P&D, GungHo continued spending roughly JPY 10B per year for more than 13 years on game development. However, to date, it has failed to establish a stable revenue stream to replace P&D. Even major titles such as “Ninjala” and “LET IT DIE” have failed to become pillars supporting the company’s earnings. While a cumulative JPY 135.1 B has been invested in developing new titles, the total sales generated are estimated to be only JPY 8.8 B³. In effect, GungHo has been investing not in new hits, but in failures.

Development cost and total sales for new titles

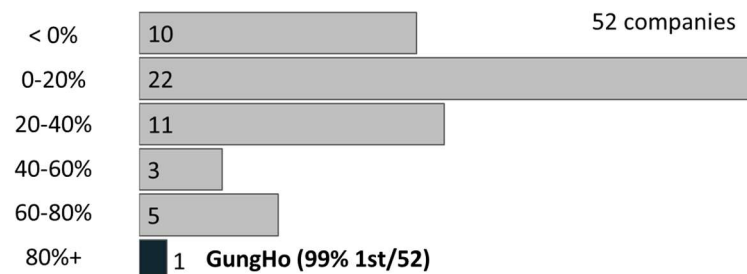


Released on December 4, 2025, “LET IT DIE: INFERNO” epitomizes this situation. On the major review aggregator Metacritic, it received a score of 54, ranking 356th out of 359 PC games released in 2025⁴, making it one of the most notable failures of the year.

The Market’s Verdict: GungHo = A pile of cash/≠ a game company

At present, net cash accounts for 99%⁵ of GungHo’s market cap. In other words, the market values GungHo not as a game company, but as a pile of cash.

Distribution of net cash as a percentage of market cap



The reasons for no signs of improvement are visible despite such a low market valuation lies in Morishita’s one-man regime and those who support it.

“Stable Shareholder” fails to inject tension into Management

Taizo Son, a former director of GungHo, is the company’s largest shareholder, holding approximately 22.1% of the voting rights (120,065 units)⁶. His vote therefore has the power to sway the outcome of many shareholder meeting proposals.

³ The costs incurred for releasing new titles were estimated by aggregating the following expenses from GungHo’s standalone SGA since 2013 - 20% personnel, 50% advertising, 100% outsourcing, 50% other, and 100% of impairment losses. Total sales from new titles represents the cumulative incremental standalone sales excluding Puzzle & Dragons, using 2012 as the base year.

⁴ Source: Metacritic (accessed Jan 26, 2026). 54 is the metascore. Universe represents the 359 titles that actually received a metascore.

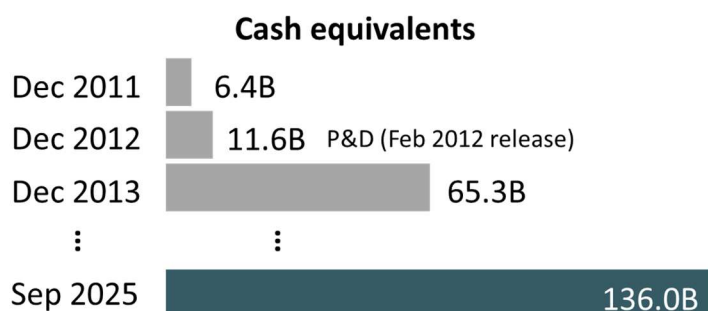
⁵ Net cash is calculated using the actual figures as of Sept 30, 2025. Market cap based on the end of Dec 2025.

⁶ Source: Amendment report for a large shareholding report dated December 5, 2025.

However, Son has acted as a “stable shareholder,” consistently supporting company proposals while opposing shareholder proposals. SC believes that the presence of such a stable shareholder has diminished the sense of urgency regarding the company’s ongoing string of failures.

Excess cash is enabling lax management

Since the release of P&D in 2012, GungHo has continued to accumulate cash equivalents and as of the end of September 2025 held approx. JPY 136B⁷. This is a level of cash so excessively large that even if the company continued its wasteful management practices the pile would not be depleted for more than a decade.



The belief that ‘there’s plenty of cash, so everything is fine’ has eliminated any sense of urgency and delayed meaningful reform—is this not the reality of GungHo today?

The “highly paid chairman” structure persists even after the CEO change

GungHo announced that, effective February 1, 2026, Morishita would transition from President and Representative Director to Chairman of the Board, while Director and CFO Kazuya Sakai would assume the role of President and Representative Director. However, it was stipulated that Chairman Morishita’s compensation would significantly exceed that of President Sakai⁸.

Expected remuneration in the new system (JPY 10,000)

| | Chairman of the Board (Morishita) | | "Representative" Director & President (Sakai) |
|--------------------|--------------------------------------|---|---|
| Fixed | 8,400 | > | 6,500 |
| Performance-Linked | 8,500 | > | 4,000 |
| Stock | 8,500 | > | 4,000 |
| <u>Total</u> | <u>25,400</u> | > | <u>14,500</u> |

This arrangement under which Morishita remains in place as a higher-paid chairman than the sitting president cannot be regarded as an effort to revive the company through a fundamental reform of its management structure. Rather, it must be viewed as merely obscuring managerial accountability.

In order to rectify the issues described above, SC has exercised its shareholder rights and submitted proposals for the upcoming AGM scheduled for March.

⁷ Cash equivalents = cash and deposits + securities (current assets) + long-term deposits.

⁸ Under the revised compensation system, the condition is met when net income attributable to owners of the parent reaches at least JPY 20 B and a 100% comparative growth rate (defined as the Company’s three-year TSR growth rate divided by the three-year dividend-inclusive TOPIX growth rate (×100)).

Proposals Submitted by SC and Their Summary

Proposal 1: Acquisition of Treasury Shares from a Specific Shareholder

(Summary) That the Company acquire, as treasury shares, all GungHo shares held by Taizo Son, a major shareholder of GungHo, through SON Financial LLC and FAH Co., Ltd. (120,065 voting units, representing 22.1% of voting rights), at a price that does not particularly favor other shareholders.

Proposal 2: Appropriation of Surplus

(Summary) That the Company pay a dividend of surplus equivalent to 20% of the balance of cash equivalents (non-consolidated) totaling JPY 84.6B as of the end of December 2024, corresponding to JPY 311/share.

Proposal 3: Amendment Regarding the Decision-Making Body for Determining Dividends of Surplus

(Summary) That the Articles of Incorporation be amended so that, in principle, year-end dividends shall be determined by resolution of the general meeting of shareholders.

Proposal 4: Amendment Regarding the Selection of the Chair of the Board of Directors

(Summary) That the Articles of Incorporation be amended so that, in principle, the chair of the Board of Directors shall be selected from among outside directors.

Proposal 5: Amendment Regarding the Appointment of the Chairman of the Board

(Summary) That the Articles of Incorporation be amended so that the Chairman of the Board shall be selected from among outside directors.

Proposal 6: Amendment Regarding Disclosure of Sales by Title

(Summary) That the Articles of Incorporation be amended so that, in principle, sales figures for game titles with significant importance shall be disclosed.