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Medium-Term Management Plan 2023 and Further Improvement of Corporate Value

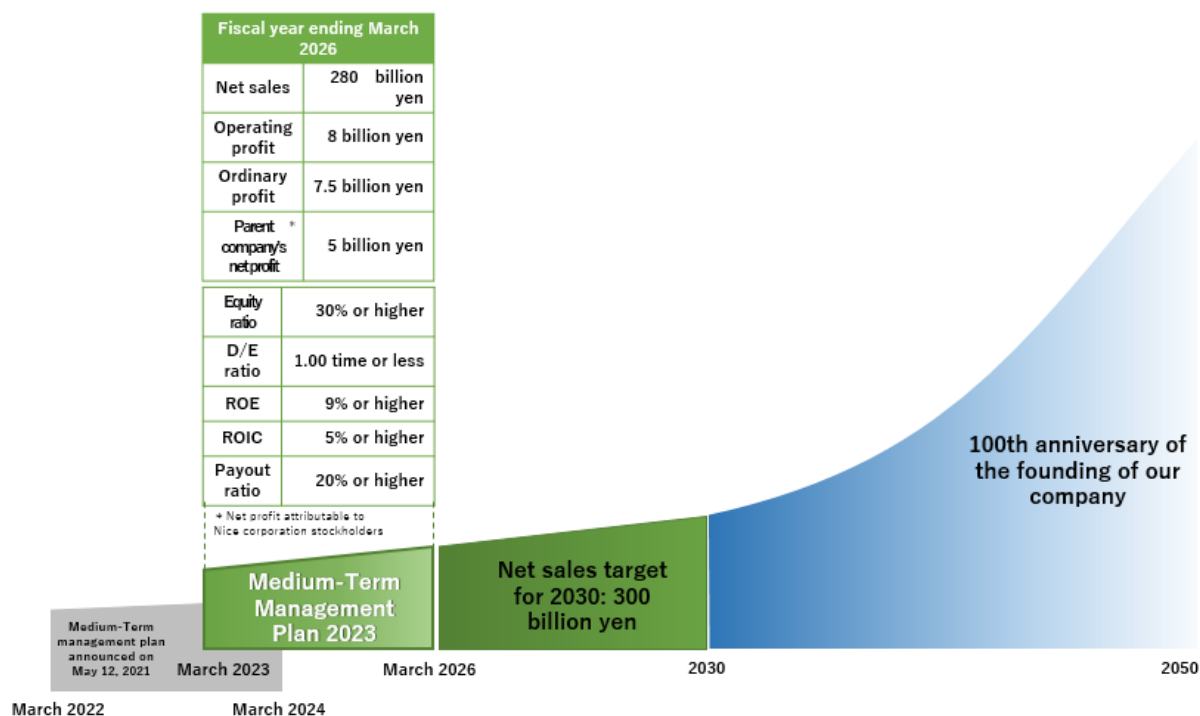
Following our accelerated accomplishment of the medium-term management plan announced on May 12, 2021 with a three-year plan period up to the fiscal year ending March 2024, we hereby announce our formulation of a new plan, Medium-Term Management Plan 2023, with a plan period from the fiscal year ending March 2024 to the fiscal year ending March 2026, as well as policies for improving our corporate value.

1. Background

In May 2021, we formulated a medium-term management plan with a three-year plan period up to the fiscal year ending March 2024 and implemented business activities based on the key strategies set out in the plan. During the period of this plan, uncertainty increased due to, among other factors, wood shortages, the situation in Ukraine, soaring resource and energy prices, and the rapid depreciation of the yen, greatly affecting our business environment. Even under these circumstances, in the fiscal year ended March 2023, we managed to achieve our quantitative targets for the final year of the plan ahead of schedule.

Considering changes in the business environment as opportunities to create new corporate value, we have formulated a new plan, Medium-term Management Plan 2023, starting from the fiscal year ending March 2024. Defining the significance of our social existence as “With trees, Connect our life, Create shining future” and aiming to realize the cyclic use of forest resources that play an important role as a measure against global warming, we will strive to achieve sustainable growth and further enhance our corporate value by steadily implementing the various measures set forth in the plan in order to improve not only our economic value but also our social and environmental value and to play a part in solving social issues through, among our other activities, the promotion of utilization of wood which is our roots and an eco-material.

2. Positioning of the Medium-Term Management Plan 2023



3. Quantitative targets

	Medium-term management plan (announced on May 12, 2021) Final year plan for the fiscal year ending March 2024	Fiscal year ended March 2023 Actual results	Medium-Term Management Plan 2023 (announced on this occasion) Final year plan for the fiscal year ending March 2026
Net sales	230 billion yen	236.3 billion yen	280 billion yen
Operating profit	5 billion yen	5.2 billion yen	8 billion yen
Ordinary profit	4.5 billion yen	4.9 billion yen	7.5 billion yen
Profit attributable to owners of parent	3.5 billion yen	3.7 billion yen	5 billion yen
Equity ratio	30%	30.6%	30% or higher
D/E ratio *1	1.00 time or less	0.97 times	1.00 time or less
ROE	8%	8.1%	9% or higher
ROIC *2	—	4.9%	5% or higher
Payout ratio (consolidated)	—	12.5%	20% or higher

Based on the development of a strong supply chain with an eye on an increase in the percentage of domestically-produced wood used in the building materials business segment, which is our key business segment, and also based on an expansion in the supply of seismic-isolated condominium in the housing business segment, this medium-term management plan sets out the following quantitative targets for the fiscal year ending March 2026, which is the final year of the plan: net sales of ¥280 billion, operating profit of ¥8 billion, ordinary profit of ¥7.5 billion, and ¥5 billion as profit attributable to owners of parent.

Our target ROIC is 5% or higher, which exceeds the WACC level.

*1 D/E ratio: (Bonds + Borrowings) / (Shareholders' equity + Accumulated other comprehensive income)

*2 ROIC: (Operating profit - Total income taxes) / (Bonds + Borrowings + Shareholders' equity + Accumulated other comprehensive income)

4. Growth drivers

Attainment target	Growth driver
No. 1 domestically-produced wood business	<ul style="list-style-type: none"> ① No. 1 in terms of the handling volume of domestically-produced timber products (lumber/laminated lumber) ② Expansion of the lumber business and precutting business [capital investment] ③ Promoting wood use for interiors and exteriors [material development]
Hyper-logistics	<ul style="list-style-type: none"> ① Rebuilding of our capital region logistics functions, and execution of our CRE strategy [capital investment, digital transformation of logistics] ② Construction of an orderingsystem [digital transformation] ③ Expansion of areas and functions [M&A] ④ Strengthening of construction functions [function restructuring, M&A]
No.1 in the area	<ul style="list-style-type: none"> ① Expansion of the housing stock service based in Yokohama, and strengthening of the distribution of existing housing ② No. 1 supplier of seismic-isolated condominium ③ Expansion of the second-hand housing purchase and resale business ④ Creation of synergy by utilizing YOU Communications Corporation

Attainment target	Human capital management / Environmental management
Establishment of an independent-minded culture	<ul style="list-style-type: none"> ① Introduction of engagement surveys, and improvement of engagement scores ② Formulation and implementation of succession plans, and establishment of talent management ③ Acquisition of “White 500” certification to be recognized as Health and Productivity Management Outstanding Organizations
Accomplishment of social missions	<ul style="list-style-type: none"> ① Promotion of the sustainability committee ② Promotion of the central safety and health committee ① Achievement of Scope 1 and 2 carbon neutrality ② Increase of carbon dioxide absorption by expanding the owned area and planted area of the forest of Nice, which is our company-owned forest

5. Basic policies

(1) Materials

In addition to strengthening the handling of wood, which is an abundant resource in Japan and plays an important role as a measure against global warming, we will strive to promote the provision of products and services that can contribute to saving energy and achieving zero energy use in connection with building structures, and to reduce greenhouse gas emissions.

(2) Living

In order to create a so-called stock type society, we will promote the creation of high-quality and long-lasting housing that takes earthquake resistance, health, and energy conservation into consideration, and will expand our housing stock service based in Yokohama and shift more of our focus to the business associated with the distribution of existing housing.

(3) People

We will strive to improve the autonomy and independence of employees, to promote diversity, equity, and inclusion, and to improve employee engagement by enhancing employees’ “job satisfaction” and “pleasant working environment.”

6. Formulation of environmental targets with an eye on 2050, the 100th anniversary of the founding of our company

Target for 2050	Taking on the challenge of achieving value-chain-wide carbon neutrality
Target for 2030	Contribution to the realization of a carbon-neutral society through forest cultivation and wood utilization —Achieving Scope 1, 2, and 3 carbon neutrality*1—
Target for 2026	Achievement of the carbon neutrality of the Nice Group —Achieving Scope 1 and 2 carbon neutrality*2—

*1 This includes “avoided emissions” associated with, for example, carbon stocks generated by using domestically-produced wood, and emissions offset by the amount of carbon dioxide absorbed by the company-owned forest.

*2 This includes emissions offset by the amount of carbon dioxide absorbed by the company-owned forest.

We aim to achieve carbon neutrality throughout our value chain by 2050. As a foothold for this, we first aim to achieve Scope 1 (direct emissions) and Scope 2 (indirect emissions associated with energy use) carbon neutrality by 2026 through, among other means, reduction of carbon dioxide emissions in our business activities. Then, we will proceed to aim to achieve carbon neutrality in the Nice Group’s supply chain by 2030, including Scope 3 (other indirect emissions generated in the supply chain) carbon neutrality.

In addition to focusing on the strengthening of wood handling and the promotion of adopting wooden buildings and using wood for buildings, we will promote reforestation by returning profits from these activities to mountain owners and realize the cyclic use of forest resources. In addition, we will increase carbon dioxide absorption by expanding the owned area and planted area of the forest of Nice, our company-owned forest, and will promote, among other matters, switching to renewable energy-derived power. We will set up a sustainability committee as the core to run the PDCA cycle leading to the realization of our environmental targets and strive to implement environmental management, thereby seeking to contribute to the realization of a decarbonized society.

7. Capital investment

Starting with the Kanto Logistics Center (Ogosemachi, Iruma-gun, Saitama), which commenced its operation in October 2022 and is the largest logistics center of our group in the capital region, we have embarked on the designing of a reconstruction plan for the Koshigaya Logistics Center (Koshigaya, Saitama) to restructure and strengthen our capital region logistics system, aiming for completion of its construction work in fiscal 2025. Taking advantage of its highly convenient location near Tokyo outer ring road, we will strengthen our assembly function and onsite logistics function with an eye on expanding transactions with wide-area builders.

Furthermore, YOU Communications Corporation has, since 2021, invested in facilities for FTTH (Fiber-to-the-Home) which uses optical fiber cables for trunk lines and directly connects those cables to private homes to enable high-capacity and ultra-high-speed communication. Following construction section No. 1 (Tsurumi Ward, Yokohama), construction work in section No. 2 (Kohoku Ward and Kanagawa Ward, Yokohama) was completed in March 2023. We will continue to work toward the completion of construction work in the final section, construction section No. 3 (Kawasaki Ward and Saiwai Ward, Kawasaki), in March 2024. Through this construction project, we are hoping to enhance the information distribution service and communication environment service of YOU Communications Corporation, to utilize our housing stock in the housing business, and create synergy with, for example, our business associated with the distribution of existing housing.

(Note on forward-looking statements, etc.)

The forward-looking statements presented in this document, such as forecasts of business performance, are based on the information currently available to us and on certain assumptions that we deem reasonable, and we do not intend to guarantee the achievement any of such statements. In addition, actual financial results, etc. may differ significantly from these statements due to a wide range of factors.