June 14, 2024

Company: LITALICO Inc.
Representative: Takahiro Tsuji, Representative Director and Vice President
Ticker: TSE Prime 7366
Contact: Sho Nochi, IR Manager (TEL: 03-5704-7355)

Notice Regarding the Acquisition of Developmental Disability Center of Nebraska, LLC and Accompanying Resolutions (Establishment of Subsidiary and Loans)

The Board of Directors resolved today that LITALICO Inc. (“LITALICO,” below) will establish a new subsidiary in the United States (Headquarters: Delaware; “US Subsidiary,” below) in June 2024, which will acquire 100% of Developmental Disability Center of Nebraska, LLC (Headquarters: Nebraska, U.S.; “DDCN,” below) as its wholly-owned subsidiary (“Acquisition,” below).

In addition, the total investment amount in the US Subsidiary is expected to qualify it as a specified subsidiary of LITALICO. Details regarding related reasons and borrowing of funds for the Acquisition are described below.

I. Reasons for Acquisition

With the vision of "Creating an Obstacle-free Society," the LITALICO group currently provides support services for education, vocation, daily life, and elderly care at over 300 facilities nationwide. In addition, the LITALICO Group is developing internet platform services in the field of disability care, leveraging the expertise gained through operation of such facilities. Our aim is to provide higher quality services to more individuals and the betterment of industry standards overall, through the synergistic integration of our facility-based and platform-based businesses.

Upon careful deliberation regarding service expansion abroad, the decision to acquire 100% of DDCN was made as a first step in actualizing our vision on a global perspective. Development of comprehensive services for individuals with disabilities and their families will continue, now in the US as well, similarly to in Japan.

The 2022 U.S. census estimates more than 45 million individuals have hearing, vision, cognitive, ambulatory, self-care, and independent living difficulties, and the number continues to grow. Public spending on services for Intellectual or Development Disabilities (IDD) alone has continued to increase, amounting to 80 billion USD in 2021.

DDCN provides housing and daytime activity services for individuals with intellectual and developmental disabilities in Omaha, Nebraska, a city located in the Midwest of the United States. With emphasis on servicing severe cases of such intellectual and developmental disabilities, it operates 17 group homes (as of December 2023) and continues to expand service provision across Nebraska.

The population of Nebraska has continued to increase, from 1.88 million in 2014 to 1.97 million in 2022[*1]. The existence of a wait list of applicants who are currently unable to access disability welfare services in the U.S., calls for further expansion of service provision in the future.

[*1] "American Community Survey," US Federal Government.

Going forward, we intend to accelerate the expansion of DDCN's business in Nebraska and attain expertise in the field of disability services in the US, to further promote business expansion both domestically and internationally.

II. Acquisition Method and Price

Through this Acquisition, DDCN will become a wholly-owned subsidiary upon purchase of all shares from its current shareholders through the newly established US Subsidiary, in the manner described below. The funds for the Acquisition will be borrowed from financial institutions as described separately.

(i) Establishment and Investment in US Subsidiary

LITALICO is currently proceeding with plans to establish "LITALICO Corporation" (wholly-owned specified subsidiary) as a US subsidiary in Delaware. The establishment will complete before the closing of the Acquisition.

(ii) Acquisition of DDCN's Equity Interest by the U.S. Subsidiary

LITALICO has entered into an equity transfer agreement ("Agreement") for 100% of DDCN shares to be acquired from its current shareholders for USD 29.5 million. Under the Agreement, DDCN will become a consolidated subsidiary of LITALICO through the acquisition of shares by its US Subsidiary.

(iii) Additional Payments Under the Earn-out Clause

Under the earn-out clause, it has been agreed that the current shareholders will receive additional incentive fees upon exceeding certain contractual profit targets, in an amount commensurate with the achievement of such targets. If the earn-out conditions are met, an additional payment of up to approximately 20.5 million USD in total may arise in the future, bringing the total price for this Acquisition to a maximum of approximately 50 million USD when combined with the payment in (ii). No such additional payments will be incurred if earn-out conditions are unmet.

III. Changes in Subsidiaries

(i) DDCN

(1)	Company name	Developmental Disability Center of Nebraska, LLC	
(2)	Location	1805 N 73rd St Omaha, NE 68114	
(3)	Representative	Rachidi Adedokoun, Founder & CEO	
(4)	Business	Developmental Disability (DD) Service Provider business in Nebraska	
(5)	Capital	7,360 USD[*2]	
(6)	Establishment	January 8, 2015	
(7)	Major shareholders	Rachidi Adedokoun, 89.99% (4 other holders 10.01%)	
(8)	Relationship with LITALICO	Capital	None
		Personal	None
		Transactional	None
(9)	Operating results and financials for DDCN over past three fiscal years		

(unit: thousand USD)	FY Dec 2021	FY Dec 2022	FY Dec 2023
Net asset	1,966	5,525	7,721
Total asset	2,190	6,100	8,321
Net asset per share	-	-	-
Sales	10,970	19,196	26,006
Operating profit	2,294	6,318	9,261
Net profit (pre-tax)[*3]	2,694	6,313	9,303
Net income (loss) per share	-	-	-
Dividends per share	-	-	-

[*2] Aggregate paid-in capital

*3 Taxes were paid separately by owner(s)

(ii) US Subsidiary (specified subsidiary)

(1)	Company name	LITALICO Corporation	
(2)	Location	Expected to be incorporated in Delaware, US	
(3)	Representative	Atsumi Hasegawa, Representative Director	
(4)	Business	Management of subsidiaries in the US	
(5)	Capital	Approx. 14.75 million USD *4	
(6)	Establishment	June 14, 2024	
(7)	Major shareholders	LITALICO Inc. 100%	
(8)	Relationship with LITALICO	Capital	Wholly-owned subsidiary of LITALICO
		Personal	None
		Transactional	Loan contracts, etc. *5
(9)	Operating results and financials over past two fiscal years	Not applicable	

*4 Total amount of investment including capital surplus

*5 Capital required to acquire DDCN will be paid into the US Subsidiary through a loan or capital contribution by LITALICO

IV. Acquisition Equity Amount and Price, and Interest Held Before and After Transfer

(1)	Interest held before transfer	None
(2)	Interest to be acquired	100%
(3)	Acquisition price	Approx. 29.5 million USD *6
(4) (5)	Interest held after transfer Overview of current shareholders	100% Rachidi Adedokoun (Nebraska resident) 89.99% 4 other shareholders (Nebraska residents) 10.01% There are no capital, personal, or transactional relations between LITALICO and any of the above shareholders, and none are related parties.

*6 As described in II.(iii) regarding additional payments under the earn-out provision, an additional payment of approximately 20.5 million USD may be incurred depending on DDCN's future performance indicators. The total acquisition price may amount to approximately USD 50 million as a result of the earn-out payments.

V. Date of Acquisition

(1)	Decision date	June 14, 2024
(2)	Contract date	June 14, 2024
(3)	Acquisition date	June 26, 2024 (expected) *7

*7 Schedule may differ from above depending on the timing of fulfillment of closing conditions. Any matter requiring disclosure that arise will be promptly disclosed.

VI. Financing

(i) Reasons

This Acquisition is expected to be funded by the following debt.

(ii) Debt Overview

(1)	Lender	MUFG Bank, Ltd.
(2)	Loan type	Bridge loan
(3)	Loan amount	29.5 million USD *8
(4)	Interest rate	1%+ TIBOR
(5)	Drawdown date	June 2024 (expected) *9
(6)	Repayment due date	June 2025 (expected)
(7)	Collateral	None

*8 Transaction in JPY

*9 The timing of the debt financing will be specified in line with the schedule of the Acquisition. Any matter requiring disclosure that arise, such as changes in the above borrowing schedule, will be promptly disclosed.

VII. Forward Outlook

DDCN is expected to become a consolidated subsidiary under LITALICO upon the execution of this transaction, but as stated in V. above, the timing of the transaction is subject to change. The subsequent impact on its consolidated business performance and the timing thereof are currently under scrutiny, and any matter requiring disclosure that arise will be promptly disclosed.

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