



FINAL RESULTS

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Somero Enterprises Inc.
09 March 2022

March 9, 2022

Somero Enterprises, Inc.
("Somero" or "the Company")

Final Results

Healthy North American market drives strong finish to 2021

Somero Enterprises, Inc. reports its annual results for the twelve months ended 31 December 2021.

Financial Highlights

- 2021 sales grew a remarkable 51% from 2020 to US\$ 133.3m (2020: US\$ 88.6m), a record for the Company
- Sales growth translated efficiently to profit and cash flow
 - Adjusted EBITDA grew 83% from 2020 to US\$ 47.8m (2020: US\$ 26.1m)
 - Operating cash flow grew 21% from 2020 to US\$ 36.9m (2020: US\$ 30.6m)
- Year-end net cash of US\$ 42.1m (2020: US\$ 35.4m) is the highest level in Somero's history
- Disciplined return of cash to shareholders
 - Paid US\$ 22.4m in dividends to shareholders in 2021 (2020: US\$ 13.9m)
- Substantially completed US\$ 1.0m share buy-back program authorized in February 2021

	FY21 (US\$)	FY20 (US\$)	% Change
Revenue	133.3m	88.6m	51%
Adjusted EBITDA ^(1,2)	47.8m	26.1m	83%
Adjusted EBITDA margin ^(1,2)	36%	29%	700bps
Profits before tax	44.6m	24.6m	81%
Adjusted net income ^(1,3)	34.8m	18.9m	84%

Diluted adjusted net income per share ^(1,3)	0.61	0.33	85%
Cash flow from operations	36.9m	30.6m	21%
Net cash ⁽⁴⁾	42.1m	35.4m	19%
Ordinary dividend per share	0.3102	0.1681	85%
Supplemental dividend per share	0.1970	0.1810	9%

Operational Highlights

- Investing for long-term growth
 - Accelerated plans to expand the Houghton, Michigan Operations and Support Offices adding 35% more operational capacity with targeted completion in mid-year 2022
 - The Australian direct sales and support team established in late 2020 drove an annual sales increase to US\$ 6.1m (2020: US\$ 1.1m)
 - The Company added over 40 employees in 2021 with focus on global sales, global customer support, and domestic operational roles
- Executing the long-term product strategy to expand the addressable market
 - The two newest products, the Somero Broom+CureTM and the SkyStripTM, combined to contribute US\$ 2.3m in 2021 revenues, a US\$ 1.0m increase over 2020
 - Launched the SkyStripTM a plywood stripping solution that targets the high-rise market segment in June 2021
 - Completed development of the S-PS50, a large boomed-screed used to level concrete in tilt-up panel casting applications, ahead of an expected Q1 2022 launch
 - Completed development of the S-28EZ, the next generation large boomed-screed to replace the S-22EZ, ahead of an expected Q1 2022 launch

Post-Period Highlights

- Declared a 22.02 US cents per share final 2021 ordinary dividend and a 19.70 US cents per share supplemental dividend, totaling a combined US\$ 23.4m, payable on May 6, 2022 to shareholders on the register at April 8, 2022
- Authorized a new share buyback program of an aggregate value of up to US\$ 2m to offset dilution from on-going equity award programs, expected to be completed by the end of 2022

Notes:

1. The Company uses non-US GAAP financial measures to provide supplemental information regarding the Company's operating performance. See further information regarding non-GAAP measures below.

2. Adjusted EBITDA as used herein is a calculation of the Company's net income plus tax provision, interest expense, interest income, foreign exchange gain (loss) other income (expense), depreciation, amortization, stock-based compensation and non-cash lease expense.

3. Adjusted net income as used herein is a calculation of net income plus amortization of intangibles and excluding the tax impact of stock option and RSU settlements and other special items.

4. Net cash is defined as cash and cash equivalents less borrowings under bank obligations exclusive of deferred financing costs.

Jack Cooney, CEO of Somero, said:

"2021 was an unprecedented year. We delivered extraordinary growth in revenues, EBITDA and operating cash flow, increasing 51%, 83% and 21%, respectively, compared to 2020, with all reaching record levels. Underpinning these remarkable results was our ability to reliably meet customer equipment

delivery requirements so that our customers could continue work on their projects. This was critical to achieving the growth we experienced and is an accomplishment that set us apart from many other companies. Our team faced many challenges in 2021, not the least of which were supply chain delays and the COVID impact on the labor force, yet through the resilience of our employees, we overcame each obstacle and we met our customers' needs.

While adjusting to meet the demands placed on the business in 2021 required significant effort, we did not lose focus on executing our long-term growth strategy. We continued to expand our addressable market with new product introductions and invested to expand our operational capacity to support future growth from existing and new products. In H2 2021, we started a US\$ 9.5m project to add 35% more operating capacity to our Houghton, Michigan Operations and Support Offices, adequate to support a business with US\$ 175m in revenues, that we expect to complete in H2 2022.

We closed the period with the strongest cash position and balance sheet in company history. This liquidity positions us well to make investments, including adding key resources, that will drive growth in the years to come from new and existing products across our key markets and to provide a healthy return of cash to shareholders through dividends. Although 2021 was an exceptional year, we know there is no room for complacency as we move through the new financial year. With the strength of our financial position and the proven capability of our talented employees, we are confident in our ability to take full advantage of the opportunities ahead, to execute our long-term strategy and to deliver strong results and returns for our shareholders. Following what has been an exceptional year, we expect to deliver modest growth in revenue and consequently profitability in FY 2022, on top of what has been an exceptional year."

This announcement contains inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) 596/2014 as it forms part of UK domestic law by virtue of the European Union (Withdrawal) Act 2018 ("MAR"), and is disclosed in accordance with the company's obligations under Article 17 of MAR.

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Notes to Editors:

Somero Enterprises provides industry-leading concrete-levelling equipment, training, education and support to customers in over 90 countries. The Company's cutting-edge technology allows its customers to install high-quality horizontal concrete floors faster, flatter and with fewer people. Somero[®] equipment that incorporates laser-technology and wide-placement methods is used to place and screed the concrete slab in all building types and has been specified for use in a wide range of commercial construction projects for numerous global blue-chip companies.

Somero pioneered the Laser Screed[®] market in 1986 and has maintained its market-leading position by continuing to focus on bringing new products to market and developing patent-protected proprietary designs. In addition to its products, Somero offers customers unparalleled global service, technical support, training and education, reflecting the Company's emphasis on helping its customers achieve their business and profitability goals, a key differentiator to its peers.

For more information, visit www.somero.com

Chairman's Statement**Introduction**

The growth we experienced in 2021 was truly remarkable. Growing revenue by 51% and EBITDA by 83% compared to 2020 is a tremendous accomplishment by any measure, and these results were directly the result of extraordinary effort by Somero employees throughout the year. While non-residential construction activity in our key markets was strong throughout 2021, particularly in the US, it was the stellar execution by our employees across all functions that enabled the Company to capitalize on the strong demand to deliver extraordinary revenue growth in 2021. On behalf of our Board, I want to thank all our Somero employees for their impressive performance and tireless work to overcome the obstacles we faced so that we could reliably deliver needed equipment to our customers. This performance was even more impressive as this was all accomplished with the health and well-being of each other, our customers, and our suppliers remaining our top priority.

Performance and Dividend

With strong trading in H2 2021, Somero finished the year with revenues of US\$ 133.3m, adjusted EBITDA of US\$ 47.8m, and year-end net cash of US\$ 42.1m, all at the highest level in Company history. Driven by these remarkable results, we ended the year with the strongest financial position in our history. This financial strength provides us with the flexibility to make investments to develop new products, add resources domestically and internationally to sell and support our products, and to expand our operational capacity to support the future growth of the business. These investments underpin the long-term success of our business, and we are pleased to be in a position to make them while maintaining a disciplined return of cash to shareholders.

In 2021, we paid US\$ 22.4m in dividends and substantially completed the US\$ 1.0m share repurchase program authorized by the Board in February 2021. I am pleased to report that based on our 2021 results and with confidence in the business outlook, the Board has approved a final 2021 ordinary dividend of 22.02 US cents per share and a supplemental dividend of 19.70 US cents per share, which on a combined basis represents a US\$ 23.4m payment to shareholders. Both amounts are payable on May 6, 2022 to shareholders of record on April 8, 2022. Together with the interim dividend paid in October 2021 of 9.00 US cents per share, the 2021 full-year ordinary dividend is 31.02 US cents per share.

The supplemental dividend declared is in accordance with the Company's supplementary dividend policy adopted on March 10, 2021, that stated the Company intends to distribute 50% of the excess of net cash over the year-end target of US\$ 20.0m. The Board has reviewed the net cash target for year-end for 2022, that will be used to determine a 2022 supplemental dividend that would be paid in 2023. Commensurate with the significant growth and increased complexity of the business, the Board now considers it prudent to raise the net cash target to US\$ 25.0m for year-end 2022, and intends to distribute 50% of the excess of net cash over this amount as a supplemental dividend.

Share Buyback

In February 2022, the Board approved a 2022 share buyback program, pursuant to which, the Board intends to carry out a buyback US\$ 2.0m of common shares in order to mitigate future dilution resulting from share issuances under the Company's equity award programs. The Company expects to complete this program by the end of 2022.

Strategic Progress

Somero is committed to leading the industry forward by introducing innovative solutions that help our customers build better, safer, and more profitable businesses. Bringing new products to market not only brings more value to our customers, but it also expands our addressable market and long-term growth opportunity. 2021 was a productive year for our product development team. In addition to completing development of three new products, the team also progressed to develop the pipeline of future products encompassing both next generation enhancements of existing products and entirely new products geared toward new market segments.

In June 2021, Somero introduced disruptive technology to the market, the SkyStripTM, a stripping machine for plywood sheets used to shore concrete slabs in structural high-rise buildings. Also in the year, we completed development of the S-28EZ, the next generation large boomed-screed replacing the S-22EZ, and completed design of the S-PS50, a large boomed-screed used to level concrete in tilt-up panel casting applications. The addition of these three new products, with the S-28EZ and the S-PS50 expected to be commercially available in Q1 2022, expands our offering portfolio to nearly 20 products. New products also contributed to 2021 revenue growth, with the two most recent introductions, the Somero Broom+CureTM and SkyStripTM combining for US\$ 2.3m in 2021 revenues, a US\$ 1.0m increase over 2020. We were pleased that job-site demonstrations began to resume in H2 2021 for the SkyScreed[®] product line that translated to US\$ 0.9m in H2 2021 SkyScreed[®] sales bringing total 2021 sales for this product to a comparable level with 2020. We remain confident in the long-term growth opportunity for this product line and the broader high-rise structural segment.

Growth from outside North America was meaningful in 2021. International revenues grew US\$ 8.8m, or 50%, in 2021 compared to 2020 to reach US\$ 26.7m for the year as our efforts to educate markets on the benefits of quality, flat and level concrete slabs, to increase market awareness of the strength of Somero's value proposition and to gain traction with new products were effective despite the overhang of COVID restrictions. Our international strategy is to focus on markets where our value proposition is strongest, such as Europe and Australia, and to add or reallocate resources to these markets. Consequently, Europe and Australia were the source of the vast majority of international growth, reporting a combined US\$ 18.2m in 2021 sales, increasing US\$ 8.5m, or 88%, compared to 2020.

Senior Management Changes and Board Appointments

I am pleased to report that at the end of 2021, the Board and Senior Management began the orderly transition of responsibilities from Jack Cooney, who has served as President and Chief Executive Officer since 1997, to other members of the Senior Management team.

John Yuncza, who held the position of Chief Financial Officer, was appointed President in January 2022, assuming responsibility of the execution of the strategy and daily operations of the business from Mr. Cooney. At the same time, Vincenzo ("Enzo") LiCausi, who held the position of Vice President of Finance, was appointed Chief Financial Officer and to the Board. Mr. Cooney will continue to serve as Chief Executive Officer and as an executive director on the Company's Board, guiding the long-term vision and strategy of the business with particular focus on new product development initiatives and assuring an effective and seamless transition of leadership to Mr. Yuncza.

I am also pleased to report that our extensive search in 2021 to add a fourth non-executive director to the Board culminated with Anne Ellis, an accomplished, experienced senior business executive with tremendous construction engineering experience, being appointed to the Board at the beginning of 2022.

Outlook

The Board is confident in the outlook for 2022 based on the positive momentum of an active US non-residential construction market that is carrying forward from a strong finish to 2021, the positive momentum and market conditions in our targeted international markets, and on the opportunities for growth from new products. The Board's view is supported by direct feedback from US customers that report healthy, extended project backlogs.

With the Board's confidence in the long-term growth opportunity from new products and new market segments, it has committed to increase investment in product development, sales and support staff that are engaged with new products and new market segments both in the US and abroad. With these planned investments, primarily in the form of staffing additions, we expect an increase in 2022 operating costs that will exceed our traditionally targeted US\$ 2.0m. We are pleased to be able to make these investments now to capture future growth thanks to our strong financial position and the positive outlook for the business.

Momentum has continued into the current fiscal year and the Board expects 2022 will be a profitable year with healthy cash generation. Following an extraordinary year in 2021, with remarkable growth and record revenues and profits, 2022 revenues are expected to grow at a modest rate, and with the investments for

future growth being made, 2022 EBITDA is expected to be comparable to 2021. This outlook also reflects the annualized impact in 2022 of 2021 hires that were required to keep pace with significantly increased demand, and of the aforementioned decision to add product development, sales and support staff in 2022 to benefit future growth.

Larry Horsch

Non-Executive Chairman

March 9, 2022

Chief Executive Officer's Review**Overview**

2021 was an outstanding year, with record breaking revenue, profits and cash flow. The strong trading was consistent throughout the year, due to steady demand particularly in the US, and due to the remarkable performance of our operational team to convert this demand into sales. Reliable delivery of equipment to customers was a tremendous accomplishment that set Somero apart from many other companies. Our team overcame many challenges during the year, not the least of which were supply chain delays and the loss of manpower due to COVID quarantines, to meet our customers' equipment requirements so they could continue work on their projects.

Total revenues grew an outstanding 51% from 2020 to reach US\$ 133.3m, the highest in Somero's history, with North America the most significant contributor to growth. The record trading in 2021 converted into record profits. 2021 EBITDA increased 83% from 2020 to reach US\$ 47.8m for the year with the highly efficient conversion of growth to profit due to lean operation in 2021 as actual staffing levels lagged levels required to sustainably support the higher volume of trading. Much of the understaffing gap was resolved by year-end 2021. Record profits in turn led to record operating cash flow that grew 21% compared to 2020 to reach US\$ 36.9m in 2021. That led to net cash at year-end of US\$ 42.1m, a record level for the Company. The final 2021 results fell in line with guidance provided on 26 January 2022.

During 2021 the Company was able to pay dividends of US\$ 22.4m, repurchased US\$ 1.0m in common shares, and spent US\$ 6.2m on capital expenditures, the vast majority of which relates to the Houghton, Michigan expansion project, and still end 2021 with a record level of net cash. The strong cash position to start 2022 enables the company to return a US\$ 23.4m to shareholders through a dividend payment in May 2022 and provides the Company with the capability and flexibility to make investments in support of executing its long-term growth strategy.

Region Reviews

In 2021, four of the Company's five regions grew compared to 2020. North America reported 2021 sales increased US\$ 35.9m, or a remarkable 51%, from 2020 to reach US\$ 106.6m in sales for the year in our largest market. The remaining three regions comprised of Europe, Australia and the Rest of World group, combined to contribute US\$ 24.0m to 2021 sales, an increase of US\$ 10.0m, or 71%, compared to 2020. This strong global revenue contribution highlights

positive momentum and solid non-residential construction activity across a large portion of our geographic footprint.

The tremendous growth in North America in 2021 was driven by strong non-residential construction activity in the US encompassing a wide range of projects but with particularly strong demand for new warehousing due to rapid acceleration of e-commerce transaction volume. We also saw strong take rates across our product portfolio indicating a broad range of project activity in the market. Increased volume of large footprint commercial and industrial projects, such as new warehousing, led to customers demanding highly-productive equipment such as the S-22EZ to complete these projects and drove sales of boomed screed equipment to reach US\$ 50.4m in 2021, more than doubling the US\$ 24.3m reported in 2020. The vast majority of these boomed-screed sales were in North America. The outlook for North America is positive supported by expected continuation of an active US non-residential construction market and supported by customer feedback indicating project backlogs extend well into 2022.

Europe reported a significant increase in 2021 revenues, reaching US\$ 12.1m in annual revenues, an increase of US\$ 3.5m, or 41%, from 2020. Non-residential construction activity in Europe was also positive and corroborated by input from European customers solicited during our frequent direct contact. Our customer feedback in Europe indicates project workloads are strong entering 2022. We are also pleased with the broad-based contribution to sales from across the region, with equipment sales in 2021 to thirteen countries, with the most significant contributors being UK, Poland, Spain, and Italy. We are continuing to focus intently on markets within the European region where our value proposition is strongest.

In Australia, our decision to change our go-to-market approach in Q4 2020 and establish a direct sales and support team resulted in meaningful improvement in 2021. Australia reported 2021 sales of US\$ 6.1m, an increase of US\$ 5.0m, or 455%, compared to 2020. The tremendous improvement in 2021 was attributable to positive levels of non-residential construction activity, to more intense coverage of the market that represented a broader portion of our product offering, and to the positive impact of favorable local currency exchange rates.

In China, 2021 revenues declined to US\$ 2.7m compared to US\$ 3.9m in 2020. The primary obstacle to growth in China is delayed acceptance and demand for quality standards of concrete slabs by domestic commercial building developers which consequently limits our near to medium term opportunity within this targeted quality market segment. As a result of the market climate and recent performance, at the end of 2021 we finalized plans to reduce our operational cost structure in China to align to anticipated trading volume. These cost reduction actions will begin in 2022 and include reducing the size of our in-country team and limiting market development, direct field sales and marketing activities. Consequently, we anticipate the revenue contribution from this market will lessen in 2022 and going forward until domestic demand for quality concrete slabs increases. We will continue to evaluate our longer-term strategy in this market and adjust appropriately as conditions change.

Our Rest of World group, is comprised of Latin America, India, Southeast Asia, Middle East, Korea and Russia, with Russia contributing immaterially to annual trading at less than US\$ 0.2m in 2021 revenues. In 2021, combined revenues from the Rest of World group increased US\$ 1.5m, or 35%, compared to 2020 to reach US\$ 5.8m for the year. Market conditions seen throughout these territories in 2021

were generally positive. The largest contributors to the Rest of World performance were Latin America reporting 2021 revenues of US\$ 2.2m compared to US\$ 1.1m in 2020, and India reporting 2021 revenues of US\$ 1.9m compared to US\$ 1.2m in 2020. The improved performance in Latin America was due to incremental contribution from Brazil, despite unfavorable local currency exchange rates. In India, we are pleased with the contribution to revenue, despite more severe COVID impacts than in other parts of the world, and we expect to see opportunities for continued growth in the future.

Cashflow and Balance Sheet

Somero delivered strong operating cash flow in 2021, totalling US\$ 36.9m, as a result of record profits and effective working capital management. Working capital was closely and effectively managed in 2021, but as expected the one-time working capital benefit of US\$ 6.7m realized in 2020 partly reversed in 2021 as accounts receivable and inventory reverted to more typical levels to end 2021, with the higher level of inventory in 2021 due in part to new products launches. The combined impact led to an increase in working capital investment of US\$ 4.6m in 2021, although even with the increased net working capital investment, 2021 operating cash flow grew 21% compared to 2020 and year-end net cash reached US\$ 42.1m, an all-time high for the Company.

In 2021, the Company invested US\$ 6.2m in capital expenditures, funding the investment with operating cash flow, with the vast majority of this spend relating to progress payments on the US\$ 9.5m Houghton, Michigan expansion project that began in H2 2021.

Based on the Company's secure financial position and the Board's confident outlook for the business, the Board has approved a final 2021 ordinary dividend of 22.02 US cents per share and a supplemental dividend of 19.70 US cents per share, which on a combined basis represents a US\$ 23.4m payment to shareholders that is payable on May 6, 2022. This significant return of cash to shareholders in May 2022 follows the payment of US\$ 22.4m in dividends in 2021, reflective of the disciplined return of cash to shareholders in accordance with the Company's dividend policy.

Product Development

New products are central to the Company's long-term growth strategy and in 2021 the Company continued to execute this strategy by adding to the product portfolio and expanding the Company's addressable market.

In 2021, Somero introduced one new product and completed design of two additional products. In June 2021, the Company introduced the SkyStrip™, a disruptive mechanical solution to strip plywood sheets used to shore concrete slabs in structural high-rise buildings. Similar to the SkyScreed®, the SkyStrip™ represents a change to long-established manual processes and therefore at this early stage requires job site demonstration to gain acceptance. In 2021, the product development team completed the design of S-28EZ, the next generation boomed-screed to replace the S-22EZ, a product we expect will be commercially available in Q1 2022. The S-28EZ provides a meaningful increase in productivity to customers due to its extended boom reach enabling faster concrete placement that saves valuable time for the contractor. The product development team also completed the design of the S-PS50 in 2021. The S-PS50 is our largest boomed-screed with 50-foot extension and is targeted for leveling concrete in tilt-up panel

casting applications historically a manual, labor intensive process. With the addition of these three new products, our portfolio expands to nearly 20 products.

The Company's two most recent product introductions, the Somero Broom+CureTM and SkyStripTM combined to contribute US\$ 2.3m in 2021 revenues, a US\$ 1.0m increase over 2020. As expected and consistent with most entirely new products introduced to the market, market acceptance grows at a measured pace building toward more wide-spread adoption that drives meaningful sales growth.

We were also pleased that job-site demonstrations began to resume in H2 2021 in the structural high-rise market segment that translated to US\$ 0.9m in SkyScreed[®] sales during H2 2021 to bring total sales for 2021 to a comparable level with 2020, and to enable building early market awareness of the newly introduced SkyStripTM. We remain confident that this product line and the broader high-rise structural segment represents a meaningful long-term growth opportunity.

Beyond these new 2021 products, our product development team made progress to develop the pipeline of future products that consists of enhancing existing products and developing entirely new concepts that target new market segments and applications. Our development process begins on the job site where our team identifies opportunities to deliver value to our customers by eliminating pain points, replacing inefficient manual processes with mechanical solutions, increasing the quality of concrete slab, and improving the safety of the construction process. The Board is committed to adding necessary resources to support this effort, as well as to selling and providing customer support for the expanding line-up of new products in targeted markets across the globe. We expect this incremental investment will increase operating expenses at a faster pace than seen in previous years but will provide the benefit of capturing growth from new products in the US and abroad in the years to come.

Expansion Update

The Company has made substantial progress toward completion of the planned US\$ 9.5m expansion of our Global Operations and Support Offices in Houghton, Michigan. The project will increase the operational capacity of the facility by 35%, enough to support a business with US\$ 175.0m in annual revenues. The expansion is required to accommodate higher volumes as well as significantly larger new products such as S-PS50 and S-28EZ. Approximately US\$ 4.5m of the project cost was expended in H2 2021, with the majority of the remaining cost expected to be expended in H1 2022. Anticipated completion of the project is H2 2022.

Conclusion

The talent, dedication and resolve of our management team and employees drove these tremendous results by overcoming many challenges we faced this year. In addition to delivering record results and returning US\$ 23.4m in cash to shareholders in 2021 through dividends, we continued to progress on our product development initiatives and in investing in driving future growth in targeted international markets. As we enter 2022, we have the positive momentum of healthy North American market, opportunities for growth in our targeted international markets, and meaningful growth prospects from new products in our domestic and international markets in front of us. With all of this in place, we are extremely well positioned for our next phase of growth and look forward to delivering another year of substantial progress for our shareholders.

Jack Cooney
 Chief Executive Officer
 March 9, 2022

Notes:

(1) *Net Cash is defined as total cash and cash equivalents less borrowings under bank obligations exclusive of deferred financing costs.*

FINANCIAL REVIEW

Summary of financial results

	Year ended	
	December 31,	
	2021	2020
	US\$ 000	US\$ 000
	<i>Except per share</i>	<i>Except per share</i>
	<i>data</i>	<i>data</i>
Revenue	133,334	88,572
Cost of sales	56,454	39,758
Gross profit	76,880	48,814
Operating expenses		
Selling, marketing and customer support	12,644	10,312
Engineering and product development	2,106	1,826
General and administrative	16,989	12,821
Total operating expenses	31,739	24,959
Operating income		23,855
Other income (expense)		
Interest expense	(45)	(45)
Interest income	171	244
Foreign exchange impact	(239)	47
Other	(408)	511
Income before income taxes	44,620	24,612
Provision for income taxes	9,788	5,839
Net income	34,832	18,773
	Per Share	Per Share
	US\$	US\$
Basic earnings per share	0.62	0.33
Diluted earnings per share	0.61	0.33
Basic adjusted net income per share ^{(1), (3), (4)}	0.62	0.34
Diluted adjusted net income per share ^{(1), (3), (4)}	0.61	0.33
Other data		

Adjusted EBITDA (1), (2), (4)	47,780	26,106
Adjusted net income (1), (3), (4)	34,835	18,873
Depreciation expense	1,173	965
Amortization of intangibles	153	153
Capital expenditures	6,245	3,734

Notes:

1. Adjusted EBITDA and Adjusted net income are not measurements of the Company's financial performance under US GAAP and should not be considered as an alternative to net income, operating income or any other performance measures derived in accordance with US GAAP or as an alternative to US GAAP cash flow from operating activities as a measure of profitability or liquidity. Adjusted EBITDA and Adjusted net income are presented herein because management believes they are useful analytical tools for measuring the profitability and cash generation of the business. Adjusted EBITDA is also used to determine pricing and covenant compliance under the Company's credit facility and as a measurement for calculation of management incentive compensation. The Company understands that although Adjusted EBITDA is frequently used by securities analysts, lenders, and others in their evaluation of companies, its calculation of Adjusted EBITDA may not be comparable to other similarly titled measures reported by other companies.

2. Adjusted EBITDA as used herein is a calculation of net income plus tax provision, interest expense, interest income, foreign exchange gain(loss), other income (expense), depreciation, amortization, stock-based compensation and non-cash lease expense.

3. Adjusted net income as used herein is a calculation of net income plus amortization of intangibles and excluding the tax impact of stock option and RSU settlements and other special items.

4. The Company uses non-US GAAP financial measures to provide supplemental information regarding the Company's operating performance. The non-US GAAP financial measures presented herein should not be considered in isolation from, or as a substitute to, financial measures calculated in accordance with US GAAP. Investors are cautioned that there are inherent limitations associated with the use of each non-US GAAP financial measure. In particular, non-US GAAP financial measures are not based on a comprehensive set of accounting rules or principles, and many of the adjustments to the US GAAP financial measures reflect the exclusion of items that may have a material effect on the Company's financial results calculated in accordance with US GAAP.

Net income to adjusted EBITDA reconciliation and Adjusted net income reconciliation

	Year ended December 31,	
	2021	2020
	US\$ 000	US\$ 000
Adjusted EBITDA reconciliation		
Net income	34,832	18,773
Tax provision	9,788	5,839
Interest expense	45	45
Interest income	(171)	(244)
Foreign exchange impact	239	(47)
Other	408	(511)
Depreciation	1,173	965
Amortization	153	153
Stock-based compensation	1,052	911
Non-cash lease expense	261	222
Adjusted EBITDA	47,780	26,106
Adjusted net income		
Net income	34,832	18,773
Amortization	153	153
Tax impact of stock option & RSU settlements	(150)	(53)
Adjusted net income	34,835	18,873

Notes:

1. Adjusted EBITDA and Adjusted net income are not measurements of the Company's financial performance under US GAAP and should not be considered as an alternative to net income, operating income or any other performance measures derived in accordance with US GAAP or as an alternative to US GAAP cash flow from

operating activities as a measure of profitability or liquidity. Adjusted EBITDA and Adjusted net income are presented herein because management believes they are useful analytical tools for measuring the profitability and cash generation of the business. Adjusted EBITDA is also used to determine pricing and covenant compliance under the Company's credit facility and as a measurement for calculation of management incentive compensation. The Company understands that although Adjusted EBITDA is frequently used by securities analysts, lenders, and others in their evaluation of companies, its calculation of Adjusted EBITDA may not be comparable to other similarly titled measures reported by other companies.

2. Adjusted EBITDA as used herein is a calculation of net income plus tax provision, interest expense, interest income, foreign exchange gain(loss), other income (expense), depreciation, amortization, stock-based compensation and non-cash lease expense.

3. Adjusted net income as used herein is a calculation of net income plus amortization of intangibles and excluding the tax impact of stock option and RSU settlements and other special items.

4. The Company uses non-US GAAP financial measures in order to provide supplemental information regarding the Company's operating performance. The non-US GAAP financial measures presented herein should not be considered in isolation from, or as a substitute to, financial measures calculated in accordance with US GAAP. Investors are cautioned that there are inherent limitations associated with the use of each non-US GAAP financial measure. In particular, non-US GAAP financial measures are not based on a comprehensive set of accounting rules or principles, and many of the adjustments to the US GAAP financial measures reflect the exclusion of items that may have a material effect on the Company's financial results calculated in accordance with US GAAP.

Revenues

The Company's consolidated revenues increased by 51% to US\$ 133.3m (2020: US\$ 88.6m). Company revenues consist primarily of sales from Boomed screed products, which include the S-22E, S-22EZ, S-15R, S-10A and SRS-4 Laser Screed[®] machines, sales from Ride-on screed products, which are drive through the concrete machines that include the S-485, S-940 and S-158C Laser Screed[®] machines, Remanufactured machine sales, 3-D Profiler System[®], Somero Line Dragon[®] (formerly SP-16 Concrete Hose Line-Pulling and Placing Systems), SkyScreed[®] and Other revenues which consist primarily of revenue from sales of parts and accessories, sales of other equipment, including the Broom + Cure[™], SkyStrip[™], service, training and shipping charges.

Boomed screed sales increased to US\$ 65.4m (2020: US\$ 31.7m) due to strong demand for machines used for large slab on grade placements, particularly the S-22EZ. Ride-on screed sales also increased to US\$ 21.3m (2020: US\$ 17.6m), while Remanufactured sales decreased to US\$ 4.8m (2020: US\$ 5.8m). Further contributions came from an increase in the 3D Profiler System[®] to US\$ 10.0m (2020: US\$ 7.5m) due to higher volume. Sales of the SkyScreed[®] remained consistent contributing slightly under US\$ 1.0m, and Other revenues increased to US\$ 26.7m (2020: US\$ 20.3m) primarily due to sales of the Somero Broom + Cure[™] and parts revenue.

Revenue breakdown by geography	North America		EMEA ⁽¹⁾		ROW ⁽²⁾		Total US\$ in millions			
	US\$ in millions		US\$ in millions		US\$ in millions		2021		2020	
	2021	2020	2021	2020	2021	2020	Net sales	% of Net sales	Net sales	% of Net sales
Boomed screeds (3)	50.4	24.3	8.9	5.2	6.1	2.2	65.4	49.1%	31.7	35.8%

Ride-on screeds (4)	16.8	13.8	1.3	2.0	3.2	1.8	21.3	16.0%	17.6	19.7%
Remanufactured machines	4.4	5.1	-	0.2	.4	0.5	4.8	3.6%	5.8	6.5%
3-D Profiler System	9.6	6.9	.1	0.1	.3	0.5	10.0	7.5%	7.5	8.5%
Somero Line Dragon (5)	4.1	4.3	.1	0.3	-	0.1	4.2	3.1%	4.7	5.3%
SkyScreed	.9	1.0	-	-	-	-	.9	.7%	1.0	1.1%
Other (6)	20.4	15.3	2.2	2.1	4.1	2.9	26.7	20.0%	20.3	23.1%
Total	106.6	70.7	12.6	9.9	14.1	8.0	133.3	100.0%	88.6	100.0%

Notes:

1. EMEA includes the Europe, Middle East, Scandinavia and Russia.
2. ROW includes the China, Australia, Latin America, India, Southeast Asia and Korea.
3. Boomed Screeds include the S-22E, S-22EZ, S-15R, S-10A and SRS-4.
4. Ride-on Screeds include the S-940, S-485, and S-158C.
5. Includes sales of the Somero Line Dragon and its predecessor the SP-16 Concrete Hose Line-Pulling and Placing Systems.
6. Other includes parts, accessories, services and freight, as well as other equipment such as the SkyStripTM, Somero Broom + CureTM, STS-11M Topping Spreader, Copperhead, and Mini Screed C.

Units by product line	2021	2020
Boomed screeds	218	125
Ride-on screeds	181	157
Remanufactured machines	26	37
3D Profiler System	84	67
Somero Line Dragon [®] (1)	110	132
SkyScreed [®]	3	3
Other (2)	50	46
Total	672	567

Notes:

1. Includes sales of the Somero Line Dragon and its predecessor the SP-16 Concrete Hose Line-Pulling and Placing Systems.
2. Other includes equipment such as the SkyStripTM, Somero Broom + CureTM, STS-11M Topping Spreader, Copperhead, and Mini Screed C.

Sales to customers located in North America contributed 80% of total revenue (2020: 80%), sales to customers in EMEA (Europe, Middle East, Scandinavia, and Russia) contributed 9% (2020: 11%) and sales to customers in ROW (Southeast Asia, Australia, Latin America, India and China) contributed 11% (2020: 9%).

Sales in North America were US\$ 106.6m (2020: US\$ 70.7m) up 51% driven mostly by sales volume growth of legacy Boomed Screeds, followed by Ride-on Screeds and new products, including the SRS-4, the Somero Broom + Cure and the SkyStripTM, partially offset by a decrease in Remanufactured machines and price increases across most of the product lines. Sales in EMEA were US\$ 12.6m (2020: US\$ 9.9m), which is an increase of 27% primarily due to an increase in Boom screeds, led by growth in sales of the SRS-4, partly offset by a decrease in Ride-on Screeds. Sales in ROW were US\$ 14.1m (2020: US\$ 8.0), representing a 76% increase driven primarily by higher sales across most of the product lines, particularly in Australia.

Regional sales	US\$ in millions	
	2021	2020
North America	106.6	70.7
Europe	12.1	8.6
Australia	6.1	1.1
China	2.7	3.9

Rest of World ⁽¹⁾	5.8	4.3
Total	133.3	88.6

Notes:

1. Includes Latin America, India, Southeast Asia, Middle East, Korea and Russia.

Gross profit

Gross profit increased to US\$ 76.9m (2020: US\$ 48.8m), with gross margins increasing to 58% (2020: 55%) primarily due to favorable product mix mostly driven by the increase in sales of Boomed screeds.

Operating expenses

Operating expenses increased by US\$ 6.7m to US\$ 31.7m (2020: US\$ 25.0m). This increase is due to higher general and administrative, selling, marketing and customer support expense.

Debt

As of December 31, 2021, the Company had no outstanding debt. The Company renewed its US\$ 10.0m secured revolving line of credit extending the term to mature in September 2024 with no other material changes.

Other income (expense)

Other income (expense) was US\$ 0.5m of other expense, compared to US\$ 0.8m of other income in 2020, primarily due to a higher realized and unrealized foreign currency exchange loss.

Provision for income taxes

The provision for income taxes was US\$ 9.8m in 2021 compared to US\$ 5.8m in 2020. Overall, Somero's effective tax rate changed to 21.9% in 2021 from 23.7% in 2020.

Earnings per share

Basic earnings per share represents income available to common stockholders divided by the weighted average number of shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustments to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate to outstanding restricted stock units.

Earnings per common share has been computed based on the following:

	Year ended December 31,	
	2021 US\$ 000	2020 US\$ 000
Income available to stockholders	34,832	18,773
Basic weighted shares outstanding	56,133,366	56,336,687
Net dilutive effect of stock options and restricted stock units	692,173	636,909
Diluted weighted average shares outstanding	56,825,539	56,973,596

	Per Share	Per Share
	US\$	US\$
Basic earnings per share	0.62	0.33
Diluted earnings per share	0.61	0.33
Basic adjusted net income per share	0.62	0.34
Diluted adjusted net income per share	0.61	0.33

Consolidated Balance Sheets

As of December 31, 2021 and 2020

	As of December 31,	
	2021	2020
	US\$ 000	US\$ 000
Assets		
Current assets:		
Cash and cash equivalents	42,146	35,388
Accounts receivable - net	7,691	6,411
Inventories- net	14,293	11,127
Prepaid expenses and other assets	1,590	1,676
Income tax receivable	2,376	-
Total current assets	68,096	54,602
Accounts receivable, non-current - net	461	736
Property, plant, and equipment - net	21,589	16,509
Financing lease right-of-use assets-net	383	485
Operating lease right-of-use assets-net	1,578	1,295
Intangible assets - net	1,392	1,545
Goodwill	3,294	3,294
Deferred tax asset	172	80
Other assets	394	303
Total assets	97,359	78,849
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	7,111	4,380
Accrued expenses	10,291	6,702
Financing lease liability - current	183	162
Operating lease liability - current	360	204
Income tax payable	-	888
Total current liabilities	17,945	12,336
Financing lease liability - long-term	127	228
Operating lease liability - long-term	1,255	1,133
Other liabilities	2,367	1,622
Total liabilities	21,694	15,319
Stockholders' equity		
Preferred stock, US\$.001 par value, 50,000,000 shares authorized, no shares issued and outstanding	-	-
Common stock, US\$.001 par value, 80,000,000	26	26

shares authorized, 56,246,964 and 56,425,598
 shares issued and 56,039,924 and 56,124,409
 shares outstanding at December 31, 2021 and
 2020, respectively

Less: treasury stock, shares 207,040 as of

December 31, 2021 and 301,189 shares as of (848) (1,040)

December 31, 2020 at cost

Additional paid in capital 16,769 17,598

Retained earnings 62,187 49,771

Other comprehensive loss (2,469) (2,825)

Total stockholders' equity 75,665 63,530

Total liabilities and stockholders' equity 97,359 78,849

See Notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2021 and
2020

	Year ended December 31,	
	2021	2020
	US\$ 000	US\$ 000
	except per share data	except per share data
Revenue	133,334	88,572
Cost of sales	56,454	39,758
Gross profit	76,880	48,814
Operating expenses		
Sales, marketing and customer support	12,644	10,312
Engineering and product development	2,106	1,826
General and administrative	16,989	12,821
Total operating expenses	31,739	24,959
Operating income	45,141	23,855
Other income (expense)		
Interest expense	(45)	(45)
Interest income	171	244
Foreign exchange impact	(239)	47
Other	(408)	511
Income before income taxes	44,620	24,612
Provision for income taxes	9,788	5,839
Net income	34,832	18,773
Other comprehensive income		
Cumulative translation adjustment	356	(105)

Comprehensive income	35,188	18,668
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Earnings per common share

Earnings per share - basic	0.62	0.33
Earnings per share - diluted	0.61	0.33

Weighted average number of common shares outstanding

Basic	56,133,366	56,336,687
Diluted	56,825,539	56,973,596

See Notes to consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2021 and 2020

	<u>Common stock</u>			<u>Treasury stock</u>			Other Comprehensive income (loss)	Total Stockholders' equity
	Shares	Amount US\$ 000	Additional paid-in capital US\$ 000	Shares	Amount US\$ 000	Retained earnings US\$ 000		
Balance - January 1, 2020	56,425,598	26	17,001	77,530	(191)	44,923	(2,720)	59,039
Cumulative translation adjustment	-	-	-	-	-	-	(105)	(105)
Net income	-	-	-	-	-	18,773	-	18,773
Stock-based compensation	-	-	911	-	-	-	-	911
Dividend	-	-	-	-	-	(13,925)	-	(13,925)
Treasury stock	-	-	849	(44,354)	(849)	-	-	0
RSUs settled for cash	-	-	(223)	-	-	-	-	(223)
Share buy-back	-	-	(951)	268,013	-	-	-	(951)
Investment in Subsidiary	-	-	11	-	-	-	-	11
Balance - December 31, 2020	56,425,598	26	17,598	301,189	(1,040)	49,771	(2,825)	63,530
Cumulative translation adjustment	-	-	-	-	-	-	356	356
Net income	-	-	-	-	-	34,832	-	34,832
Stock-based compensation	-	-	1,052	-	-	-	-	1,052
Dividend	-	-	-	-	-	(22,416)	-	(22,416)
Treasury stock	(178,634)	-	(192)	(94,149)	192	-	-	-
RSUs settled for cash	-	-	(685)	-	-	-	-	(685)
Share buy-back	-	-	(1,004)	-	-	-	-	(1,004)
Balance -	56,246,964	26	16,769	207,040	(848)	62,187	(2,469)	75,665

December 31,
2021

See Notes to consolidated
financial statements.

Consolidated Statements of Cash Flows

For the years ended December 31, 2021 and 2020

	Year ended December 31,	
	2021	2020
	US\$ 000	US\$ 000
Cash flows from operating activities:		
Net income	34,832	18,773
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred taxes	(91)	484
Depreciation and amortization	1,326	1,118
Non-cash lease expense	261	222
Bad debt	468	215
Stock-based compensation	1,052	911
Gain/Loss on disposal of property and equipment	(49)	(98)
Working capital changes:		
Accounts receivable	(1,473)	5,521
Inventories	(3,166)	1,162
Prepaid expenses and other assets	86	(385)
Other assets	(91)	(42)
Accounts payable, accrued expenses and other liabilities	7,025	2,945
Income taxes payable	(3,264)	(190)
Net cash provided by operating activities	36,916	30,636
Cash flows from investing activities:		
Proceeds from sale of property and equipment	41	80
Property and equipment purchases	(6,245)	(3,734)
Net cash used in investing activities	(6,204)	(3,654)
Cash flows from financing activities:		
Payment of dividend	(22,416)	(13,925)
RSUs settled for cash	(685)	(223)
Stock buy-back	(1,004)	(951)
Investment in subsidiary	-	11
Payments under financing leases	(205)	(158)
Net cash used in financing activities	(24,310)	(15,246)
Effect of exchange rates on cash and cash equivalents	356	(105)
Net increase in cash and cash equivalents	6,758	11,631

Cash and cash equivalents:		
Beginning of year	35,388	23,757
End of year	42,146	35,388

See Notes to consolidated financial statements.

Notes to the Consolidated Financial Statements

As of December 31, 2021 and 2020

1. Organization and description of business

Nature of business

Somero Enterprises, Inc. (the "Company" or "Somero") designs, assembles, remanufactures, sells and distributes concrete levelling, contouring and placing equipment, related parts and accessories, and training services worldwide. Somero's Operations and Support Offices are located in Michigan, USA with Global Headquarters and Training Facilities in Florida, USA. Sales and service offices are located in Chesterfield, England; Shanghai, China; New Delhi, India; and Melbourne, Australia.

2. Summary of significant accounting policies

Basis of presentation

The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America using the accrual basis of accounting.

Principles of consolidation

The consolidated financial statements include the accounts of Somero Enterprises, Inc. and its subsidiaries. All significant intercompany transactions and accounts have been eliminated in consolidation.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (US GAAP) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash and cash equivalents

Cash includes cash on hand, cash in banks, and temporary investments with a maturity of three months or less when purchased. The Company maintains deposits primarily in one financial institution, which may at times exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation ("FDIC"). The Company has not experienced any losses related to amounts in excess of FDIC limits.

Accounts receivable and allowances for doubtful accounts

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of accounts receivable. The Company's accounts

receivable are derived from revenue earned from a diverse group of customers. The Company performs credit evaluations of its commercial customers and maintains an allowance for doubtful accounts receivable based upon the expected ability to collect accounts receivable. Allowances, if necessary, are established for amounts determined to be uncollectible based on specific identification and historical experience. As of December 31, 2021 and 2020, the allowance for doubtful accounts was approximately US\$ 1,637,000 and US\$ 1,187,000, respectively. Bad debt expense was US\$ 468,000 and US\$ 215,000 in 2021 and 2020, respectively.

Inventories

Inventories are stated using the first in, first out ("FIFO") method at the lower of cost or net realizable value ("NRV"). Provision for potentially obsolete or slow-moving inventory is made based on management's analysis of inventory levels and future sales forecasts. As of December 31, 2021 and 2020, the provision for obsolete and slow-moving inventory was US\$ 1,212,000 and US\$ 361,000, respectively.

Intangible assets and goodwill

Intangible assets consist primarily of customer relationships, trademarks and patents, and are carried at their fair value when acquired, less accumulated amortization. Intangible assets are amortized using the straight-line method over a period of three to seventeen years, which is their estimated period of economic benefit.

Goodwill is not amortized but is subject to impairment tests on an annual basis, and the Company has chosen December 31 as its periodic assessment date. Goodwill represents the excess cost of the business combination over the Company's interest in the fair value of the identifiable assets and liabilities. Goodwill arose from the Company's prior sale from Dover Corporation to The Gores Group in 2005 and the purchase of the Line Dragon, LLC business assets in January 2019. The Company did not incur a goodwill impairment loss for the periods ended December 31, 2021 nor December 31, 2020.

Revenue recognition

The Company generates revenue by selling equipment, parts, accessories, service agreements and training. The Company recognizes revenue for equipment, parts and accessories when it satisfies the performance obligation of transferring the control to the customer. For product sales where shipping terms are FOB shipping point, revenue is recognized at a point in time upon shipment. For arrangements which include FOB destination shipping terms, revenue is recognized at a point in time upon delivery to the customer. The Company recognizes the revenue for service agreements and training once the service or training has occurred.

As of December 31, 2021 and 2020 there are US\$ 507,000 and US\$ 371,000, respectively, of extended service agreement liabilities. During the years ended December 31, 2021 and 2020, US\$ 321,000 and US\$ 358,000, respectively, of revenue was recognized related to the amounts recorded as liabilities on the balance sheets in the prior year (deferred contract revenue).

As of December 31, 2021 and 2020, there are US\$ 4,009,000 and US\$ 3,009,000, respectively, in customer deposit liabilities for advance payments received during the period for contracts expected the following period. As of the year ended December 31, 2021 and 2020, there are no significant contract costs such as sales

commissions or costs deferred. Interest income on financing arrangements is recognized as interest accrues, using the effective interest method.

Warranty liability

The Company provides warranties on all equipment sales ranging from 60 days to three years, depending on the product.

Warranty liabilities are estimated net of the warranty passed through to the Company from vendors, based on specific identification of issues and historical experience and is recorded in accrued expenses in the accompanying consolidated balance sheets.

	US\$ 000
Balance, January 1, 2020	(931)
Warranty charges	248
Accruals	(491)
Balance, December 31, 2020	(1,174)
Balance, January 1, 2021	(1,174)
Warranty charges	362
Accruals	(1,174)
Balance, December 31, 2021	(1,986)

Property, plant, and equipment

Property, plant and equipment is stated at cost, net of accumulated depreciation and amortization. Land is not depreciated. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which is 31.5 to 40 years for buildings (depending on the nature of the building), 15 years for improvements, and 3 to 10 years for machinery and equipment.

Income taxes

The Company determines income taxes using the asset and liability approach. Tax laws require items to be included in tax filings at different times than the items reflected in the financial statements. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Deferred tax assets are reduced by a valuation allowance, if necessary, to the extent that it appears more likely than not that such assets will be unrecoverable. The Company evaluates tax positions that have been taken or are expected to be taken in its tax returns and records a liability for uncertain tax positions. This involves a two-step approach to recognizing and measuring uncertain tax positions. First, tax positions are recognized if the weight of available evidence indicates that it is more likely than not that the position will be sustained upon examination, including resolution of related appeals or litigation processes, if any. Second, the tax position is measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement.

Stock-based compensation

The Company recognizes the cost of employee services received in exchange for an award of equity instruments in the financial statements over the period the employee is required to perform the services in exchange for the award (presumptively the vesting period). The Company measures the cost of employee services in exchange for an award based on the grant-date fair value of the award. Compensation expense related to stock-based payments was US\$ 1,052,000 and US\$ 911,000 for the years ended December 31, 2021 and 2020, respectively. In addition, the Company settled US\$ 685,000 and US\$ 223,000 in restricted stock units for cash during the years ended December 31, 2021 and 2020, respectively.

Transactions in and translation of foreign currency

The functional currency for the Company's subsidiaries outside the United States is the applicable local currency. The preparation of the consolidated financial statements requires the translation of these financial statements to USD. Balance sheet amounts are translated at period-end exchange rates and the statement of comprehensive income accounts are translated at average rates. The resulting gains or losses are charged directly to accumulated other comprehensive income. The Company is also exposed to market risks related to fluctuations in foreign exchange rates because some sales transactions, and some assets and liabilities of its foreign subsidiaries, are denominated in foreign currencies other than the designated functional currency. Gains and losses from transactions are included as foreign exchange gain (loss) in the accompanying consolidated statements of comprehensive income.

Comprehensive income

Comprehensive income is the combination of reported net income and other comprehensive income ("OCI"). OCI is changes in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources not included in net income.

Earnings per share

Basic earnings per share represents income available to common stockholders divided by the weighted average number of common shares outstanding during the year. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued using the treasury stock method. Potential common shares that may be issued by the Company relate to outstanding stock options and restricted stock units.

Earnings per common share have been computed based on the following:

	Year ended December	
	31,	
	2021	2020
	US\$ 000	US\$ 000
Income available to stockholders	34,832	18,773
Basic weighted shares outstanding	56,133,366	56,336,687
Net dilutive effect of stock options and restricted stock units	692,173	636,909
Diluted weighted average shares outstanding	56,825,539	56,973,596

Fair value

The carrying values of cash and cash equivalents, accounts receivable, accounts payable, and other current assets and liabilities approximate fair value because of the short-term nature of these instruments. The carrying value of our long-term

debt approximates fair value due to the variable nature of the interest rates under our Credit Facility.

US GAAP has issued accounting guidance on fair value measurements. This guidance provides a common definition of fair value and a framework for measuring assets and liabilities at fair values when a particular standard prescribes it.

This guidance also specifies a fair value hierarchy based upon the observability of inputs used in valuation techniques. These valuation techniques may be based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. These two types of inputs create the following fair value hierarchy.

- Level 1 - Quoted prices for identical instruments in active markets.
- Level 2 - Quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; and model-derived other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets and liabilities.
- Level 3 - Unobservable inputs for the asset or liability which are supported by little or no market activity and reflect the Company's assumptions that a market participant would use in pricing the asset or liability.

		Quoted prices in active markets identical assets <i>Level 1</i>	Significant other observable inputs <i>Level 2</i>	Significant other unobservable inputs <i>Level 3</i>
	US\$ 000	US\$ 000	US\$ 000	US\$ 000
Year ended December 31, 2020				
Asset: Goodwill	3,294			3,294
Year ended December 31, 2021				
Asset: Goodwill	3,294			3,294

3. Inventories

Inventories consisted of the following:

	Year ended December 31,	
	2021	2020
	US \$ 000	US \$ 000
Raw material	8,679	5,543
Finished goods and work in process	3,462	2,933
Remanufactured	2,152	2,651
Total	14,293	11,127

4. Goodwill and intangible assets

Goodwill represents the excess of the cost of a business combination over the fair value of the net assets acquired. The Company is required to test goodwill for impairment, at the reporting unit level, annually and when events or circumstances indicate the fair value of a unit may be below its carrying value. The results of the qualitative assessment indicated that goodwill was not impaired as of December 31, 2021 and 2020, and that the value of patents was not impaired as of December 31, 2021. The following table reflects other intangible assets:

		Weighted average Amortization Period	Year ended December 31, 2021 US\$ 000	2020 US\$ 000
<i>Capitalized cost</i>	Patents	12 years	19,247	19,247
	Intangible Assets		7,434	7,434
			26,681	26,681
<i>Accumulated amortization</i>	Patents	12 years	18,673	18,626
	Intangible Assets		6,616	6,510
			25,289	25,136
<i>Net carrying costs</i>	Patents	12 years	574	621
	Intangible Assets		818	924
			1,392	1,545

Amortization expense associated with the intangible assets in each of the years ended December 31, 2021 and 2020 was approximately US\$ 153,000 and US\$ 153,000, respectively. The amortization expense for each of the next five years will be US\$ 135,000 and the remaining amortization thereafter will be US\$ 717,000.

5. Property, plant, and equipment

Property, plant, and equipment consist of the following:

	Year ended December 31,	
	2021	2020
	US\$ 000	US\$ 000
Land	864	864
Building and improvements	20,191	15,278
Machinery and equipment	8,185	6,906
	29,240	23,048
Less: accumulated depreciation and amortization	(7,651)	(6,539)
	21,589	16,509

Depreciation expense for the years ended December 31, 2021 and 2020 was approximately US\$ 1,173,000 and US\$ 965,000, respectively.

6. Line of credit and note payable

In November 2020, the Company renewed its amended credit facility, which consists of a US\$ 10.0m secured revolving line of credit, extending the maturity to September 2024. The interest rate on the revolving line of credit is based on the one-month LIBOR rate plus 1.25%. The Company's credit facility is secured by substantially all its business assets. No amounts were drawn under the secured revolving line of credit in the years ended December 31, 2021 or 2020.

Interest expense for the years ended December 31, 2021 and 2020 was approximately US\$ 45,000 and US\$ 45,000, respectively, and relates primarily to interest costs on leased vehicles.

7. Retirement program

The Company has a savings and retirement plan for its employees, which is intended to qualify under Section 401(k) of the US Internal Revenue Code ("IRC"). This savings and retirement plan provides for voluntary contributions by participating employees, not to exceed maximum limits set forth by the IRC. The Company's matching contributions vest immediately. The Company contributed approximately US\$ 925,000 to the savings and retirement plan during 2021 and contributed US\$ 767,000 during 2020.

8. Leases

The Company leases property, vehicles, and equipment under leases accounted for as operating and finance leases. The leases have remaining lease terms of less than 1 year to 11 years, some of which include options for renewal. The exercise of these renewal options is at the sole discretion of the Company. The right-of-use assets and related liabilities presented on the Consolidated Balance Sheet, reflect management's current expectations regarding the exercise of renewal options. The components for lease expense were as follows as of December 31, 2021:

	US\$ 000
Operating lease cost	374
Finance lease cost:	
Amortization of right-of-use assets	243
Interest on lease liabilities	18
Total finance lease cost	261

As of December 31, 2021, the weighted average discount rate for finance and operating leases was 4.7% and 3.4%, respectively, and the weighted average remaining lease term for finance and operating leases was 1.8 years and 7.2 years, respectively.

Maturities of lease liabilities are as follows for the years ended:

	Operating Leases US\$ 000	Finance Leases US\$ 000
2022	411	198
2023	406	102
2024	233	25
2025	103	-
2026	103	-

Thereafter	614	-
Total	1870	325
Less imputed interest	(255)	(15)
Total	1,615	310

9. Supplemental cash flow and non-cash financing disclosures

	Year ended December 31,	
	2021	2020
	US\$ 000	US\$ 000
Cash paid for interest	45	45
Cash paid for taxes	12,547	5,491
Finance lease liabilities arising from obtaining right-of-use assets	(80)	(20)
Operating lease liabilities arising from obtaining right-of-use assets	278	108

10. Business and credit concentration

The Company's line of business could be significantly impacted by, among other things, the state of the general economy, the Company's ability to continue to protect its intellectual property rights, and the potential future growth of competitors. Any of the foregoing may significantly affect management's estimates and the Company's performance. At December 31, 2021 and 2020, the Company had two customers which represented 21% and five customers which represented 32% of total accounts receivable, respectively.

11. Commitments and contingencies

The Company has entered into employment agreements with certain members of senior management. The terms of these are for renewable one-year periods and include non-compete and non-disclosure provisions as well as provide for defined severance payments in the event of termination or change in control. The Company is also subject to various unresolved legal actions which arise in the normal course of its business. Although it is not possible to predict with certainty the outcome of these unresolved legal actions or the range of possible losses, the Company believes these unresolved legal actions will not have a material effect on its consolidated financial statements.

12. Income taxes

	Year ended December 31,	
	2021	2020
	US\$ 000	US\$ 000
Current Income Tax		
Federal	8,344	4,320
State	1,195	824
Foreign	341	216
Total current income tax expense	9,880	5,360
Deferred tax expense (benefit)		
Federal	(91)	407
State	(1)	72

Total deferred tax expense	(92)	479
Total tax provision	9,788	5,839

As of December 31, 2021 and 2020, the effects of temporary differences that give rise to the deferred tax assets are as follows:

	Year ended December 31,	
	2021	2020
	US\$ 000	US\$ 000
Deferred tax assets		
Bad debt allowance	378	277
Inventory	284	128
Accrued expenses	458	303
UK intangibles	105	105
Stock compensation	394	382
Italy - NOL	268	196
Australia- NOL	-	36
Lease liability	47	41
Other	250	182
Total deferred tax assets	2,184	1,650
Deferred tax liabilities		
Prepaid insurance	(264)	(130)
Fixed assets	(838)	(571)
Intangible assets	(597)	(590)
Right of use asset	(45)	(47)
Total deferred tax liabilities	(1,744)	(1,338)
Valuation allowance	(268)	(232)
Total net deferred tax asset	172	80

A reconciliation of the income tax provision with the amount of tax computed by applying the federal statutory rate to pretax income follows:

	Year ended December 31,	
	2021	2020
	US\$ 000	US\$ 000
Consolidated income before tax	44,620	24,612
Statutory rate	21%	21%
Statutory tax expense	9,370	5,169
State taxes	943	723
Foreign taxes	342	(33)
Permanent differences due to stock options and RSUs	6	34
Permanent differences due to other items	21	25
Foreign derived intangible income	(1,207)	(323)
Change in valuation allowance	36	42
Change in reserve	67	76
Other	210	126
Tax expense	9,788	5,839

As of December 31, 2021, the Company has US\$ 1.12m of foreign loss carryforwards with an indefinite carryforward life. Management assesses the recoverability of our deferred tax assets as of the end of each quarter, weighing all positive and negative evidence, and is required to establish and maintain a valuation allowance for these assets if we determine that it is more likely than not

that some or all of the deferred tax assets will not be realized. The weight given to the evidence is commensurate with the extent to which the evidence can be objectively verified. If negative evidence exists, positive evidence is necessary to support a conclusion that a valuation allowance is not needed. As of December 31, 2021 management has determined that a valuation allowance is currently needed against the Company's net operating loss carryforward deferred tax assets.

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. The Company has open years for the tax year 2013 and forward. The Company has open years related to United Kingdom filings for the tax year 2018, and open years related to Italian filings for tax years 2014 forward.

The Company adopted the accounting standard for uncertain tax positions, ASC 740-10, in accordance with US GAAP, and as required by the standard, the Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely than not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

Increases or decreases to the unrecognized tax benefits could result from management's belief that a position can or cannot be sustained upon examination based on subsequent information or potential lapse of the applicable statute of limitation for certain tax positions.

Unrecognized tax benefits - January 1, 2020	958
Increases from positions taken during prior periods	-
Increases from positions taken during current period	-
Settled positions	-
Lapse of statute of limitations	-
Unrecognized tax benefits - December 31, 2020	958
Unrecognized tax benefits - January 1, 2021	958
Increases from positions taken during prior periods	492
Increases from positions taken during current period	-
Settled positions	-
Lapse of statute of limitations	-
Unrecognized tax benefits - December 31, 2021	1,450

The amount of unrecognized tax benefits as of December 31, 2021, if recognized, would favorably affect the Company's effective tax rate. These unrecognized tax benefits are classified as "Other long-term liabilities" in the Company's consolidated balance sheets as the Company does not intend to make significant payments in the next twelve months. The interest and penalties related to the unrecognized tax benefits are US\$ 73,000 and US\$ 76,000 as of December 31, 2021 and 2020, respectively. Interest and penalties related to unrecognized tax benefits are included in the provision for income tax expense.

13. Revenues by geographic region

The Company sells its products to customers throughout the world. The breakdown by location is as follows:

	2021 US\$ 000	2020 US\$ 000
United States and U.S. possessions	106,627	70,683

Rest of World	26,707	17,889
Total	133,334	88,572

14. Stock-based compensation

The Company has stock-based compensation plans which are described below. The compensation cost that has been charged against income for the plans was approximately US\$ 1,052,000 and US\$ 911,000 for the years ended December 31, 2021 and 2020, respectively. The income tax effect recognized for stock-based compensation was US\$ 0.2m and US\$ 0.05m, respectively, for the years ended December 31, 2021 and 2020.

Restricted stock units

The Company also regularly issues restricted stock units to employees and Non-Executive Directors, subject to Board approval.

A summary of restricted stock unit activity in 2021 and 2020 is presented below:

	Shares	Grant date fair market value US\$
Outstanding at January 1, 2020	486,090	2,312,584
Granted	326,960	924,737
Vested or settled for cash	(115,759)	(411,661)
Forfeited	(31,221)	(138,633)
Outstanding at December 31, 2020	666,070	2,687,027
	Shares	Grant date fair market value US\$
Outstanding at January 1, 2021	666,070	2,687,027
Granted	184,890	941,711
Vested or settled for cash	(156,644)	(826,618)
Forfeited	(7,460)	(30,000)
Outstanding at December 31, 2021	686,856	2,772,120

RSUs settled for cash were US\$ 0.7m in 2021 and US\$ 0.2m in 2020.

As of December 31, 2021, there was US\$ 1,109,000 total unrecognized compensation cost related to non-vested restricted stock units. Restricted stock unit expense is being recognized over the three-year vesting period. The weighted average remaining vesting period is 1.2 years.

15. Employee compensation

The Board approved management bonuses and profit-sharing payments totaling US\$ 2.6m, partly paid in December 2021 and the remainder to be paid in early 2022, based upon the Company meeting certain financial targets. Amounts not paid during 2021, are included in accrued expenses in the accompanying consolidated balance sheets.

Equity bonus plan

The Company has an Equity Bonus Plan, under which eligible senior managers may choose to receive a percentage of their annual performance bonus in shares of common stock. In March 2021, the Company issued 37,014 shares of common stock, valued at US\$ 189,000 at the time of grant. In March 2020, the Company issued 35,247 shares of common stock, valued at US\$ 100,000 at the time of grant.

16. Share buyback

In February 2021 and August 2020, the Board authorized on-market share buyback programs each for such number of its listed shares of common stock as are equal to US\$ 1,000,000. The maximum price paid per Ordinary Share was no more than the higher of 105 percent of the average middle market closing price of an Ordinary Share for the five business days preceding the date of the share buyback, the price of the last independent trade and the highest current independent purchase bid. As of December 31, 2021, the Company purchased 141,266 shares of common stock for an aggregate value of US\$ 962,000 pursuant to the share buyback program authorized in 2021, and 6,521 shares of common stock for an aggregate value of US\$ 42,000, which completed the share buyback program authorized in 2020. The Company estimates the share buyback program authorized in 2021 will be completed by the end of H1 2022. In connection with the Company's share buyback programs authorized in 2021 and 2020, 178,634 shares held in treasury were cancelled in 2021.

17. Subsequent events

Dividend

In recognition of Somero's strong performance and the Board of Directors' confidence in the continued growth of the Company, the Board approved a dividend payout ratio of 50% of adjusted net income and is pleased to announce a final 2021 dividend of 22.02 US cents per share that will be payable on May 6, 2022 to shareholders on the register at April 8, 2022. Together with the interim dividend paid in October 2021 of 9.00 US cents per share, this represents a full year regular dividend to shareholders of 31.02 US cents per share. In addition, due to the strength of the Company's cash position at the end of 2021, and upon the review of anticipated future cash requirements for the business, the Board of Directors' has approved a supplemental dividend of 19.7 US cents per share that will be paid together with the final 2021 dividend on May 6, 2022 to shareholders on the register at April 8, 2022. The combined dividend payment on April 30, 2022 will total 41.72 US cents per share, representing a total dividend payment of US\$ 23.4m.

Distribution amount:	\$0.4172 cents per share
Ex-dividend date:	7 April 2022
Dividend record date:	8 April 2022
Final day for currency election:	22 April 2022
Payment date:	6 May 2022

Further, any participant holding the Security on behalf of beneficial owners resident in a treaty country with the United States of America can facilitate claims for tax relief at source for its underlying beneficial owners. In order to ensure that the appropriate rate of US Withholding Tax is applied correctly, completed documentation must be provided to the Depositary, Computershare Investor Services PLC.

All dividends, including both ordinary and supplemental, have the option of being paid in either GBP or USD subject to the underlying agreements between shareholders and their brokers which Somero cannot override. Payments in USD can be paid by Check or through Crest. Payments in GBP can be paid via Check, Crest and BACS. The default option if no election is made will be for a USD payment via check. Should shareholders wish to change their current currency or payment methods, forms are available through Computershare Investor Services PLC at <https://www-uk.computershare.com/Investor/Content/c057a8a7-f4f8-4fcb-a497-836ce2f708d5>. If shares are held as Depositary Interests through a broker or

nominee, the holding company must be contacted and advised of the payment preferences. Such requests are subject to the terms and conditions of the broker or nominee.

Additional information on currency election and tax withholding can be found at: <https://investors.somero.com/aim-rule-26>. Shareholders can also contact Computershare Investor Services PLC by telephone at +44 (0370) 702 0000 or email via webcorres@computershare.co.uk.

Equity bonus plan

In February 2022, the Board approved the 2021 Equity Bonus Plan, under which eligible senior managers can elect to receive up to 100% of their 2021 annual performance bonus in shares of common stock. The Company expects to issue shares for awards under the 2021 Equity Bonus Plan in 2022.

Share buyback

In February 2022, the Board approved a share buyback program, pursuant to which, the Board intends to carry out an on-market buyback of such number of its listed shares of common stock as are equal to US\$ 2,000,000. The purpose of the program is to mitigate future dilution resulting from share issuances under the Company's equity award programs. The Company estimates that the program will be fulfilled by the end of 2022.

Annual General Meeting

The Annual General Meeting of Stockholders (the "AGM") of the Company will be held at 14530 Global Parkway, Fort Myers, FL 33913 USA on June 14, 2022 at 9:00 am local time. The notice of the AGM shall be released with the Annual Report and shall include instructions for remote participation. Stockholders of record at the close of business on April 18, 2022 will be entitled to receive notice of, and vote at, the AGM.

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