

FINAL RESULTS

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Somero Enterprises Inc.
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March 10, 2021

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

Final Results

Healthy North American market drives strong finish to 2020

Somero Enterprises, Inc. reports its annual results for the twelve months ended 31 December 2020.

Financial Highlights

- Leveraged flexible cost structure when combined with strong H2 trading delivered healthy profits and stable margins
 - Global H2 2020 sales were US\$ 53.3m (H1 2020: US\$ 35.3m), with record US H2 sales
 - Adjusted EBITDA margin of 29% (2019: 32%)
 - Adjusted net income in the year of US\$ 18.9m (2019: US\$ 21.1m)
- Operating cash flows grew to US\$ 30.6m in 2020 (2019: US\$18.9m) driven by effective working capital management
 - Reductions to accounts receivable and inventory provided a significant one-time benefit of US\$ 6.7m to 2020 operating cash flow
- Year-end cash of US\$ 35.4m (2019: US\$ 23.8m) reflects the highest level in Somero's history
- Disciplined return of cash to shareholders
 - Paid US\$ 13.9m in dividends to shareholders in 2020 (2019: US\$ 17.4m)
 - Completed US\$ 1.0m share buy-back program authorized in August 2020

	FY20 (US\$)	FY19 (US\$)	% Change
Revenue	88.6m	89.3m	-1%
Adjusted EBITDA ^(1,2)	26.1m	28.7m	-9%
Adjusted EBITDA margin ^(1,2)	29%	32%	
Profits before tax	24.6m	27.0m	-9%
Adjusted net income ^(1,3)	18.9m	21.1m	-10%
Diluted adjusted net income per share ^(1,3)	0.33	0.37	-11%
Cash flow from operations	30.6m	18.9m	62%
Net cash ⁽⁴⁾	35.4m	23.8m	49%
Ordinary dividend per share	0.1681	0.1875	-10%
Supplemental dividend per share	0.181	0.077	135%

Operational Highlights

- Flexible operating model allowed rapid adjustments in response to changing market conditions in 2020
- Trading in each of the six regions grew in H2 2020 compared to H1 2020, led by North America
- New products contributed meaningfully to 2020 results
 - SkyScreed[®] 36, the SRS-4 boomed-screed, and the Somero Broom + Cure[™] combined to contribute US\$ 7.4m to 2020 revenues
- Completed the US\$ 3.5m expansion to the Houghton, Michigan Operations and Support Center and the US\$ 0.5m expansion to the Fort Myers, Florida Global Headquarters and Training Facility

Post-Period Highlights

- Declared a 12.81 US cents per share final 2020 ordinary dividend and a 18.1 US cents per share supplemental dividend, totaling a combined US\$ 17.3m, payable on April 30, 2021 to shareholders on the register at April 9, 2021
- Authorized a new share buyback program of an aggregate value of up to US\$ 1.0m to offset dilution from on-going equity award programs, expected to be completed by the end of 2021

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 loss, other 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:

"As we navigated through the pandemic, the health and well-being of our employees and customers always remained our number one priority. Our management team worked diligently to implement strict health and safety protocols that redefined how we work and communicate, and our employees exhibited tremendous flexibility to adapt to these changes and deliver for our customers with minimal interruption. I am so proud of the extraordinary effort of our team, that in turn delivered healthy revenues, profits and strong cash generation to our shareholders significantly exceeding the expectations established on 9 September 2020 alongside our interim results.

We were able to strike the right balance of managing short-term requirements brought on by the crisis while advancing our long-term strategy. In 2020, we introduced three new products that contributed immediately and meaningfully to current year results and completed expansions of our operational and training facilities in Michigan and Florida, laying the foundation to support future growth. I believe Somero is emerging as a stronger company having made lasting improvements in the efficiency and effectiveness of our operations and communications during this time. With all the unexpected changes and challenges it presented, 2020 provided a great example of the strength and resilience of our Company that comes from our talented and dedicated employees.

We closed the period with the strongest cash position in company history and are well positioned to make investments that will drive long-term growth in new and existing markets by expanding our product offering. We are excited by the opportunities that lie ahead and confident in our strategy and ability to deliver strong results and dividends for our shareholders."

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

Introduction

In response to the COVID-19 pandemic, our primary goal was to protect the health and welfare of our employees, customers and suppliers. Management took swift action in Q1 2020 to implement broad health and safety protocols in pursuit of this goal. The Board also prioritized protecting the financial resources of the Company by supporting a series of measures proposed by management to reduce costs and conserve cash that included the furlough of approximately 20% of the Company workforce, as announced on 5 June 2020, which did not involve the Company receiving government support or subsidy as is normal in the US furlough system. Then, as trading began to increase in H2 2020, and the outlook for the year improved, the cost control and cash conservation measures enacted in June 2020 were reversed and the Company's operational team quickly adjusted staffing levels to meet the increased demand. The year was clearly filled with rapidly changing circumstances necessitating quick, decisive actions that had widespread impact on how our employees work and communicate.

It's hard to distill such a dynamic year with all its twists and turns down to a few sentences, but one point that can be concisely stated is to express, on behalf of our board of directors, how proud we are of the entire Somero team and their extraordinary performance this year. Our employees embraced and adjusted to all the changes brought on by the pandemic, worked tirelessly day-in and day-out to protect each other, our customers and suppliers while continuing to deliver for our customers. It was a truly remarkable effort by each and every Somero employee in 2020.

Performance and Dividend

Driven by strong trading in H2 2020, the end result was a healthy year of revenues, profits and cash generation. Full year 2020 revenues were US\$ 88.6m, adjusted EBITDA was US\$ 26.1m, and year-end net cash was US\$ 35.4m, the highest level in Company history. On top of delivering these strong results, the Company continued to execute its long-term growth strategy by launching three new products in 2020 and completing the expansion of its operational and training facilities in Michigan and Florida, respectively.

Our strong balance sheet provides us with the flexibility to make investments to develop new products and add resources to sell and support these products in new and existing markets. 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 2020, we paid US\$ 13.9m in dividends and completed the US\$ 1.0m share repurchase program that began on 9 September 2020. I am pleased to report that based on the confidence in the business outlook, the Board has approved a final 2020 ordinary dividend of 12.81 US cents per share and a supplemental dividend of 18.1 US cents per share, which on a combined basis represents a US\$ 17.3m payment to shareholders. Both amounts are payable on April 30, 2021 to shareholders of record on April 9, 2021. Together with the interim dividend paid in October 2020 of 4.00 US cents per share, the 2020 full-year ordinary dividend is 16.81 US cents per share.

The supplemental dividend declared is in accordance with the Company's supplementary dividend policy adopted on March 14, 2019, that stated the Company intends to distribute 50% of the excess of net cash over the year-end target of US\$ 15.0m. The Board has reviewed the supplemental dividend policy with Management and concluded that the year-end targeted net cash figure to be used for the policy for the year-ended December 31, 2021 will be raised to US\$ 20.0m. This change will increase the Company's flexibility to invest in long-term growth initiatives and reflects the increased size and complexity of business operations. This prospective change does not affect the 2020 supplemental dividend that will be paid in April 2021.

The Board has also approved a new US\$ 1.0m share buyback program for the purpose of mitigating future dilution resulting from share issuances under the Company's equity award programs. The Company expects to complete this program by the end of 2021. Further details on which are below.

Strategic Progress

Somero's strategy is to lead through innovation by delivering solutions that help our customers build better, safer, and more profitable business. In 2020, we introduced three new products aligned to this strategic vision; the SkyScreed[®] 36, the SRS-4 boomed-screed, and the Somero Broom+Cure[™]. These products contributed to results immediately, combining for over US\$ 7.4m in 2020 sales. We are pleased that job-site demonstrations resumed for the SkyScreed product line in H2 2020, translating to US\$ 1.0m in SkyScreed sales in H2 2020, and are confident in the meaningful long-term growth opportunity this product and the broader market segment represents. Our product development team continues to develop a pipeline of future products, both next generation enhancements to existing products and new products that target new, unpenetrated market segments.

Somero has a significant long-term growth opportunity in regions outside our main North American market. We maintain a solid presence outside the US, with resources positioned across the globe that continue to work to penetrate international markets with new and existing products. While 2020 revenues outside North America declined to 20% of total sales compared to 27% in 2019, due in part to more severe COVID-19 restrictions in these regions than were put in place in the US, we continue to see generally positive non-residential construction market conditions outside the US and anticipate meaningful future contributions from new products in our non-US markets. We continue to promote wide-placement theory and quality concrete flooring standards globally which, along with introductions of new products, we anticipate will drive deeper penetration of our international markets.

Outlook

The Board is confident in the outlook for 2021 supported by solid momentum in the US carrying forward from the strong finish to 2020 and reinforced by customers reporting project backlogs that span well into 2021. Outside of the US, market conditions and activity levels remain generally positive, and while our international markets have been subject to more strict COVID-19 restrictions than those put in place in the US, we expect to see solid opportunities for growth in these regions in 2021.

The Board is also confident in the significant long-term growth opportunity from new products, including the SkyScreed. As announced in January 2020, and reflective of this confidence, the Board has made the decision to increase investment in sales and support staff involved in sales of new products in the US and abroad. This investment is expected to result in an incremental increase in operating costs in excess of the traditional targeted increase of US\$ 2m per year on an annual basis, as previously indicated, however thanks to our strong financial position and positive momentum, the business is in a good position to be able to make this investment now for benefit in future years.

With this comprehensive view, the Board expects 2021 will be a profitable year with healthy cash generation, with revenues growing in the mid-single digit percentage range and with EBITDA growing modestly compared to 2020 due to the decision to invest to add sales and support staff to benefit future growth.

Larry Horsch

Non-Executive Chairman

March 10, 2021

President and Chief Executive Officer's Review

Overview

2020 was filled with unexpected challenges and changes. The uncertainty caused by the COVID-19 pandemic in the first half of the year led to actions taken to protect the health and welfare of our employees, customers and suppliers, actions taken to protect the financial resources of the Company, and efforts to work with our employees and customers to adapt to all these changes. In the second half of the year, as trading rebounded and business momentum accelerated, the cost control and cash conservation measures announced on 5 June 2020 were reversed, and staffing levels started to normalize in order to meet the elevated demand. The year ultimately solidified with strong profitable trading to finish the year, resulting in a record US\$ 53.3m H2 2020 revenue performance, a 6% increase over the US\$ 50.3m reported in H2 2019 when the US fully recovered from historic levels of rainfall experienced during H1 2019. On a full year basis, 2020 sales were US\$ 88.6m, 2020 EBITDA was US\$ 26.1m and year-end net cash was US\$ 35.4m, all well ahead of guidance provided on 9 September 2020.⁽¹⁾

The cash generation of the business in 2020 was particularly strong. The Company generated US\$ 30.6m in operating cash flows, a 62% increase from US\$ 18.9m in 2019, as reductions to year-end 2020 accounts receivable and inventory provided a significant one-time working capital benefit of US\$ 6.7m. The strong operating cash flow enabled the Company to pay dividends of US\$ 13.9m in 2020, complete the US\$ 1.0m share repurchase program that began on 9 September 2020, and still end the year with a record level of net cash. In addition to the healthy 2020 financial results, the Company continued to execute its long-term growth strategy by launching three new products and expanding the operational and training facilities in Michigan and Florida, respectively.

Region Reviews

While full-year revenues in only one of the Company's six regions grew compared to 2019, H2 2020 revenues from each of the six regions grew compared to H1 2020, highlighting heightened momentum across all our markets to finish the year.

North America reported particularly strong H2 2020 trading reflecting an healthy US non-residential construction market that remained intact throughout the year. On a full-year basis, North American revenues grew to US\$ 70.7m in 2020, an 8% increase from the US\$ 65.5m in 2019. The outlook for our largest market remains optimistic given the health of the US non-residential construction market reinforced by consistent reporting from customers of project backlogs that extend well into 2021.

In Europe, while H2 2020 sales improved to US\$ 4.5m compared to US\$ 4.1m in H1 2020, full-year 2020 sales declined to US\$ 8.6m compared to US\$ 10.0m in 2019. Europe, as with all our non-US regions, was subject to stricter COVID-19 lockdown restrictions than those put in place in the US. The resulting interruptions and uncertainty adversely impacted customer equipment purchasing decisions. On a positive note, our European customers have continued to report solid project workloads and supported by this customer level view, our outlook for Europe is positive entering 2021 though tempered somewhat in comparison to our view of the US market. We are pleased with the broad based contribution to sales across the region, having sold equipment to thirteen countries in 2020, with the most significant contributors being the Italy, the UK, Portugal, Poland, Hungary, and Spain.

In China, 2020 revenues declined to US\$ 3.9m compared to US\$ 5.6m in 2019, even though H2 2020 revenues improved compared to H1 2020. A number of factors led to this decline, including US-China trade tensions and disruption from the COVID-19 pandemic, but the slow pace of demand for quality concrete floors by Chinese building owners and end-users remains the ultimate obstacle to breakthrough performance in this market. We will continue to evaluate our approach and China strategy as we progress through the year.

In Latin America, H2 2020 sales improved to US\$ 0.9m, up from a modest US\$ 0.2m in H1 2020, though full year 2020 revenues declined to US\$ 1.1m, down from US\$ 2.0m in 2019, as performance in the region was hampered by the broad impact of COVID-19 restrictions. The most significant contributions to 2020 sales in the region were Brazil, Mexico and Argentina, the majority of which came in H2 2020 as activity picked up from the start of the year. We were encouraged by H2 2020 activity and look forward to 2021 in this region with optimism.

The Middle East and Rest of World regions followed a similar pattern of H2 2020 improvement compared to H1 2020 but with a decline in full-year sales compared to 2019. The Middle East and Rest of World regions reported 2020 sales of US\$ 0.4m and US\$ 3.9m, compared to 2019 sales of US\$ 0.7m and US\$ 5.5m, respectively. While a multitude of country specific factors impacted performance in these two regions, we have been encouraged by generally positive market conditions and activity levels in H2 2020. The two major countries included in the Rest of World region are India, which reported 2020 revenues of US\$ 1.2m compared to US\$ 1.4m in 2019, and Australia, which reported 2020 revenues of US\$ 1.1m compared to US\$ 3.6m in 2019. Both countries were negatively impacted by COVID-19 restrictions, with Australia experiencing more severe lockdown restrictions in 2020 that stalled activity. Furthermore, in late 2020, the Company changed its Australian go-to-market strategy by adding direct resources to sell to and support customers in Australia and New Zealand in place of a long-standing dealer relationship. We believe this change creates the opportunity to further penetrate the Australian and New Zealand markets with new products in the years to come.

Cashflow and Balance Sheet

Somero delivered healthy profits that translated to particularly strong cash flow in 2020. Management leveraged the Company's flexible operational structure to closely match costs with changing activity levels throughout the year. In addition, management effectively and aggressively managed working capital, driving down accounts receivable and inventory levels at year-end 2020 to provide a significant one-time benefit of US\$ 6.7m to 2020 operating cash flow. The end-result was US\$ 30.6m in 2020 operating cash flow, a 62% increase from US\$ 18.9m in 2019, and a year-end net cash position of US\$ 35.4m, an all-time high for the Company. A secure financial position, along with the Board's confidence in the business outlook, allows the Company to comfortably maintain its ordinary dividend pay-out ratio of 50% and its supplemental dividend policy. Consequently, the Board has approved a final 2020 ordinary dividend of 12.81 US cents per share and a supplemental dividend of 18.1 US cents per share, both payable on April 30, 2021 that combined will result in a US\$ 17.3m dividend payment to shareholders.

Share Buyback

The Board has 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\$ 1.0m. The purpose of mitigating future dilution resulting from share issuances under the Company's equity award programs. The Company expects to complete this program by the end of 2021.

Product Development

New products are at the heart of the Company's long-term growth strategy and contributed immediately and meaningfully to 2020 results. The SkyScreed® 36, the SRS-4 boomed-screed, and the Somero Broom+Cure™, all launched at different points in 2020, combined to contribute over US\$ 7.4m to 2020 revenues. We are pleased that job-site demonstrations, a critical element to the selling process for the SkyScreed, resumed in North America in H2 2020 and translated to 2020 SkyScreed sales of US\$ 1.0m, matching the 2019 SkyScreed sales total. We are excited by the significant long-term growth opportunity the SkyScreed product line represents. We are particularly pleased with the immediate impact of the SRS-4, that contributed the majority of the US\$ 7.4m in 2020 new product revenues. The SRS-4 is a compact, lightweight, boomed screed that opens up applications not well suited to our larger boomed equipment, complementing our boomed screed product line-up. Finally, at mid-year we launched our latest innovation, the Somero Broom+Cure™, a product that provides a mechanical approach to apply curing agents and a broom finish to exterior concrete slabs in accordance with American Concrete Institute standards. We have been encouraged by early sales and interest in this product.

Beyond these 2020 new products, our product development team continues develop the pipeline of future products, comprised of opportunities for next generation enhancements to existing products as well as products that open new, unpenetrated market segments. In addition to continued investment in product development, the Board has made the decision to add resources to sell and support our expanding line-up of new products, such as the SkyScreed. This investment is expected to increase our operating expenses at a faster pace than seen in previous years, but will provide the necessary resources to capture growth from new products in the US and International markets in the years to come.

Expansion Update

The Company completed the US\$ 3.5m expansion to our Global Operations and Support Offices in Houghton, Michigan, a project that added 35,000 square feet to the facility, providing needed assembly space to accommodate new, larger products such as the SkyScreed, and needed office space for our growing customer support and engineering teams.

In addition, the Company completed the US\$ 0.5m expansion to the Global Headquarters and Training Facility in Fort Myers, Florida in 2020. While the Company has yet to resume in-person customer training at the Fort Myers facility due to COVID-19 safety protocols, the expansion is key element to our long-term strategy of providing a platform to support increasing the pool of skilled labor in concrete contractor industry.

Conclusion

We feel fortunate to have successfully navigated through the COVID-19 pandemic in 2020. We are confident in the talent, dedication and resolve of our management team and employees all of whom rose to the unprecedented challenges we

were faced with. We delivered strong financial results, paid US\$ 13.9m in dividends to shareholders, significantly advanced our new product initiatives, and ended the year with the highest level of cash in our Company's history. We now enter 2021 with a healthy North American market, opportunities for growth in our international markets, and an exciting range of growth prospects from new products 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
President and Chief Executive Officer
March 10, 2021

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,	
	2020	2019
	US\$ 000	US\$ 000
	Except per share data	Except per share data
Revenue	88,572	89,306
Cost of sales	39,758	38,602
Gross profit	48,814	50,704
Operating expenses		
Selling, marketing and customer support	10,312	11,108
Engineering and product development	1,826	1,796
General and administrative	12,821	11,198
Total operating expenses	24,959	24,102
Operating income	23,855	26,602
Other income (expense)		
Interest expense	(45)	(42)
Interest income	244	241
Foreign exchange impact	47	(71)
Other	511	310
Income before income taxes	24,612	27,040
Provision for income taxes	5,839	5,929
Net income	18,773	21,111
	Per Share	Per Share
	US\$	US\$
Basic earnings per share	0.33	0.37
Diluted earnings per share	0.33	0.37
Basic adjusted net income per share ^{(1), (3), (4)}	0.34	0.38
Diluted adjusted net income per share ^{(1), (3), (4)}	0.33	0.37
Other data		
Adjusted EBITDA ^{(1), (2), (4)}	26,106	28,714
Adjusted net income ^{(1), (3), (4)}	18,873	21,126
Depreciation expense	965	977
Amortization of intangibles	153	145
Capital expenditures	3,734	3,015

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 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,	
	2020	2019
	US\$ 000	US\$ 000
Adjusted EBITDA reconciliation		
Net income	18,773	21,111
Tax provision	5,839	5,929
Interest expense	45	42
Interest income	(244)	(241)
Foreign exchange impact	(47)	71
Other	(511)	(310)
Depreciation	965	977
Amortization	153	145
Stock-based compensation	911	760
Non-cash lease expense	222	230
Adjusted EBITDA	26,106	28,714
Adjusted net income		
Net income	18,773	21,111
Amortization	153	145
Tax impact of stock option & RSU settlements	(53)	(130)
Adjusted net income	18,873	21,126

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.

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Revenues

The Company's consolidated revenues declined by 1% to US\$ 88.6m (2019: US\$ 89.3m). 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™, service, training and shipping charges.

Boomed screed sales declined to US\$ 31.7m (2019: US\$ 38.0m) due to a change in the product mix of boom screeds sold, while Ride-on screed and Remanufactured sales increased to US\$ 17.6m (2019: US\$ 16.9m) and to US\$ 5.8m (2019: US\$ 4.4m), respectively. Further contributions came from Somero Line Dragon, formerly known as SP-16 Concrete Hose Line-Pulling and Placing Systems, sales US\$ 4.7m (2019: US\$ 2.8m) and the 3D Profiler System US\$ 7.5m (2019: US\$ 6.2m) due to higher volume. Sales of the SkyScreed remained consistent contributing US\$ 1.0m, and Other revenues increased to US\$ 20.3m (2019: US\$ 20.0m) primarily due to sales of the Somero Broom + Cure™, partly offset by decreased parts revenue.

Revenue breakdown by geography				Total US\$ in millions	
	North America	EMEA ⁽¹⁾	ROW ⁽²⁾	2020	2019
	US\$ in millions	US\$ in millions	US\$ in millions		

	2020	2019	2020	2019	2020	2019	Net sales	% of Net sales	Net sales	% of Net sales
Boomed screeds ⁽³⁾	24.3	27.4	5.2	4.9	2.2	5.7	31.7	35.8%	38.0	42.6%
Ride-on screeds ⁽⁴⁾	13.8	12.7	2.0	2.3	1.8	1.9	17.6	19.7%	16.9	18.9%
Remanufactured machines	5.1	3.0	0.2	0.7	0.5	0.7	5.8	6.5%	4.4	4.9%
3-D Profiler System	6.9	5.8	0.1	0.2	0.5	0.2	7.5	8.5%	6.2	6.9%
Somero Line Dragon ⁽⁵⁾	4.3	2.2	0.3	0.5	0.1	0.1	4.7	5.3%	2.8	3.2%
SkyScreed	1.0	1.0	-	-	-	-	1.0	1.1%	1.0	1.1%
Other ⁽⁶⁾	15.3	13.4	2.1	2.1	2.9	4.5	20.3	23.1%	20.0	22.4%
Total	70.7	65.5	9.9	10.7	8.0	13.1	88.6	100.0%	89.3	100.0%

Notes:

1. EMEA includes the Europe, Middle East, Scandinavia and Russia.

2. ROW includes the China, Australia, Latin America, Korea, India and Southeast Asia

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 Somero Broom + CureTM, STS-11M Topping Spreader, Copperhead, and Mini Screed C.

Units by product line	2020	2019
Boomed screeds	125	128
Ride-on screeds	157	159
Remanufactured machines	37	27
3D Profiler System	67	56
Somero Line Dragon [®] (1)	132	87
SkyScreed [®]	3	4
Other ⁽²⁾	46	34
Total	567	495

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 Somero Broom + CureTM, STS-11M Topping Spreader, Copperhead, and Mini Screed C.

Sales to customers located in North America contributed 80% of total revenue (2019: 73%), sales to customers in EMEA (Europe, Middle East, Scandinavia, and Russia) contributed 11% (2019: 12%) and sales to customers in ROW (Southeast Asia, Australia, Latin America, India and China) contributed 9% (2019: 15%).

Sales in North America were US\$ 70.7m (2019: US\$ 65.5m) up 8% driven mostly by sales from new products, including the SRS-4 and Somero Broom+ Cure, coupled with volume growth of Remanufactured machines and price increases across most of the product lines, partly offset by a decrease in volume of legacy Boomed screeds. Sales in EMEA were US\$ 9.9m (2019: US\$ 10.7m), which is a decrease of 7% primarily due to a decrease in legacy Boom screeds, partly offset by incremental sales of the SRS-4. Sales in ROW were US\$ 8.0m (2019: US\$ 13.1m), representing a 39% decline driven primarily by lower sales across most of the product lines.

Regional sales	US\$ in millions	
	2020	2019
North America	70.7	65.5
Europe	8.6	10.0
China	3.9	5.6
Middle East	0.4	0.7
Latin America	1.1	2.0
Rest of World ⁽¹⁾	3.9	5.5
Total	88.6	89.3

Notes:

1. Includes Australia, India, Southeast Asia, Korea and Russia.

Gross profit

Gross profit declined to US\$ 48.8m (2019: US\$ 50.7m), with gross margins declining to 55% (2019: US\$ 57%) primarily due to unfavorable product mix mostly driven by the decrease in sales of Boomed screeds, offset by an increase in sales of Remanufactured machines, which generate lower gross margin.

Operating expenses

Operating expenses increased by US\$ 0.9m to US\$ 25.0m (2019: US\$ 24.1m). This increase is due to higher general and administrative costs, offset by lower selling, marketing and customer support expense.

Debt

As of December 31, 2020, 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 and no other material changes.

Other income (expense)

Other income (expense) was US\$ 0.8m of other income, compared to US\$ 0.4m in 2019, primarily due to a higher unrealized foreign currency exchange gains.

Provision for income taxes

The provision for income taxes was US\$ 5.8m in 2020 compared to US\$ 5.9m in 2019. Overall, Somero's effective tax rate changed to 23.7% in 2020 from 21.9% in 2019.

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,	
	2020 US\$ 000	2019 US\$ 000
Income available to stockholders	18,773	21,111
Basic weighted shares outstanding	56,336,687	56,330,400
Net dilutive effect of stock options and restricted stock units	636,909	489,218
Diluted weighted average shares outstanding	56,973,596	56,819,618
	Per Share	Per Share
	US\$	US\$
Basic earnings per share	0.33	0.37
Diluted earnings per share	0.33	0.37
Basic adjusted net income per share	0.34	0.38
Diluted adjusted net income per share	0.33	0.37

Consolidated Balance Sheets

As of December 31, 2020 and 2019

	As of December 31,	
	2020 US\$ 000	2019 US\$ 000
Assets		
Current assets:		
Cash and cash equivalents	35,388	23,757
Accounts receivable - net	6,411	11,979
Inventories- net	11,127	12,289
Prepaid expenses and other assets	1,676	1,291
Total current assets	54,602	49,316
Accounts receivable, non-current - net	736	904
Property, plant, and equipment - net	16,509	13,714
Financing lease right-of-use assets-net	485	557
Operating lease right-of-use assets-net	1,295	1,213
Intangible assets - net	1,545	1,698
Goodwill	3,294	3,303
Deferred tax asset	80	564
Other assets	303	261
Total assets	78,849	71,530
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	4,380	2,227
Accrued expenses	6,702	5,960
Financing lease liability - current	162	148
Operating lease liability - current	204	247
Income tax payable	888	1,078
Total current liabilities	12,336	9,660
Financing lease liability - long-term	228	262
Operating lease liability - long-term	1,133	982
Other liabilities	1,622	1,587
Total liabilities	15,319	12,491

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 shares authorized, 56,425,598 and 56,425,598 shares issued and 56,124,409 and 56,348,068 shares outstanding at December 31, 2020 and 2019, respectively	26	26
Less: treasury stock, 301,189 shares as of December 31, 2020 and 77,530 shares as of December 31, 2019 at cost	(1,040)	(191)
Additional paid in capital	17,598	17,001
Retained earnings	49,771	44,923
Other comprehensive loss	(2,825)	(2,720)
Total stockholders' equity	63,530	59,039
Total liabilities and stockholders' equity	78,849	71,530

See Notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

For the years ended December 31, 2020 and 2019

	Year ended December 31,	
	2020	2019
	US\$ 000	US\$ 000
	except per share data	except per share data
Revenue	88,572	89,306
Cost of sales	39,758	38,602
Gross profit	48,814	50,704
Operating expenses		
Sales, marketing and customer support	10,312	11,108
Engineering and product development	1,826	1,796
General and administrative	12,821	11,198
Total operating expenses	24,959	24,102
Operating income	23,855	26,602
Other income (expense)		
Interest expense	(45)	(42)
Interest income	244	241
Foreign exchange impact	47	(71)
Other	511	310
Income before income taxes	24,612	27,040
Provision for income taxes	5,839	5,929
Net income	18,773	21,111
Other comprehensive income		
Cumulative translation adjustment	(105)	104
Comprehensive income	18,668	21,215
Earnings per common share		
Earnings per share - basic	0.33	0.37
Earnings per share - diluted	0.33	0.37
Weighted average number of common shares outstanding		
Basic	56,336,687	56,330,400
Diluted	56,973,596	56,819,618

See Notes to consolidated financial statements.

Consolidated Statements of Changes in Stockholders' Equity

For the years ended December 31, 2020 and 2019

Common stock
Treasury stock

Additional
paid-in

Retained
Comprehensive
Other
Total
Stockholders'

	Shares	Amount US\$ 000	capital US\$ 000	Shares	Amount US\$ 000	earnings US\$ 000	income (loss) US\$ 000	equity US\$ 000
Balance - January 1, 2019	56,425,598	26	16,969	137,269	(326)	41,255	(2,824)	55,100
Cumulative translation adjustment	-	-	-	-	-	-	104	104
Net income	-	-	-	-	-	21,111	-	21,111
Stock-based compensation	-	-	760	-	-	-	-	760
Dividend	-	-	-	-	-	(17,443)	-	(17,443)
Treasury stock	-	-	(135)	(59,739)	135	-	-	-
RSUs settled for cash	-	-	(593)	-	-	-	-	(593)
Balance - December 31, 2019	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

See Notes to consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended December 31, 2020 and 2019

	Year ended December 31,	
	2020 US\$ 000	2019 US\$ 000
Cash flows from operating activities:		
Net income	18,773	21,111
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred taxes	484	286
Depreciation and amortization	1,118	1,122
Non-cash lease expense	222	230
Bad debt	215	188
Stock-based compensation	911	760
Gain on non-cash payment for intangible asset	-	(171)
Gain/Loss on disposal of property and equipment	(98)	16
Working capital changes:		
Accounts receivable	5,521	(2,494)
Inventories	1,162	(1,374)
Prepaid expenses and other assets	(385)	210
Other assets	(42)	(35)
Accounts payable, accrued expenses and other liabilities	2,945	936
Income taxes payable	(190)	(1,934)
Net cash provided by operating activities	30,636	18,851
Cash flows from investing activities:		
Proceeds from sale of property and equipment	80	-
Property and equipment purchases	(3,734)	(3,015)
Payments for intangible assets	-	(138)
Business acquisition, net of cash acquired	-	(2,073)
Net cash used in investing activities	(3,654)	(5,226)
Cash flows from financing activities:		
Payment of dividend	(13,925)	(17,443)

RSUs settled for cash	(223)	(593)
Stock buy-back	(951)	-
Investment in subsidiary	11	-
Payments under financing leases	(158)	(169)
Net cash used in financing activities	(15,246)	(18,205)
Effect of exchange rates on cash and cash equivalents	(105)	104
Net increase (decrease) in cash and cash equivalents	11,631	(4,476)
Cash and cash equivalents:		
Beginning of year	23,757	28,233
End of year	35,388	23,757

See Notes to consolidated financial statements.

Notes to the Consolidated Financial Statements

As of December 31, 2020 and 2019

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.

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, 2020 and 2019, the allowance for doubtful accounts was approximately US\$ 1,187,000 and US\$ 961,000, respectively. Bad debt expense was US\$ 215,000 and US\$ 188,000 in 2020 and 2019, 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, 2020 and 2019, the provision for obsolete and slow-moving inventory was US\$ 361,000 and US\$ 346,000, respectively.

Business combinations and purchase accounting

The Company includes the results of operations of the businesses that it acquires as of the applicable acquisition date. The purchase price of the acquisition is allocated to the assets acquired and liabilities assumed based on their estimated fair values. The excess of the purchase price over the fair values of these identifiable assets and liabilities is recorded as goodwill. Acquisition-related expenses are recognized separately from the business combination and are expensed as incurred.

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, 2020 nor December 31, 2019.

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 upon shipment. For arrangements which include FOB destination shipping terms, revenue is recognized upon delivery to the customer. The Company recognizes the revenue for service agreements and training once the service or training has occurred.

During the year ended December 31, 2020 and 2019, there was US\$ 633,000 and US\$ 652,000, respectively, of revenue recognized during the period from liabilities related to extended service agreements (deferred contract revenue).

As of December 31, 2020 and 2019, there are US\$ 3,009,000 and US\$ 596,000, 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, 2020 and 2019, 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.

Leases

The Company adopted ASU 2016-02-Leases (Topic 842), as of January 1, 2019 and elected to use ASU 2018-11-Leases (Topic 842), Targeted Improvements, issued by the FASB in July 2018. ASU 2018-11 provides that adopters may take a prospective approach when transitioning to ASU 2016-02. Effectively, an entity would be permitted to change its date of initial application to the beginning of the period of adoption. As such, an entity is not required to adjust comparative period financial information or disclosures for the impacts of ASC 842. ASC 840 presentation and disclosures would be carried forward for comparative periods presented in which ASC 840 was utilized. Additionally, the entity would recognize the effects of applying ASC 842 as a cumulative-effect adjustment to retained earnings as of the effective date. Applying ASU 2018-11, the Company elected to present results for the period beginning January 1, 2019 using ASC 842 and comparative periods presented will use presentation and disclosures in accordance with ASC 840.

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.

	US\$ 000
Balance, January 1, 2019	(613)
Warranty charges	416
Accruals	(734)
Balance, December 31, 2019	(931)
Balance, January 1, 2020	(931)
Warranty charges	248
Accruals	(491)
Balance, December 31, 2020	(1,174)

Property, plant, and equipment

Property, plant and equipment is stated at estimated market value based on an independent appraisal at the acquisition date or at cost for subsequent acquisitions, 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.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

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\$ 911,000 and US\$ 760,000 for the years ended December 31, 2020 and 2019, respectively. In addition, the Company settled US\$ 223,000 and US\$ 593,000 in restricted stock units for cash during the years ended December 31, 2020 and 2019, 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,	
	2020	2019
	US\$ 000	US\$ 000
Income available to stockholders	18,773	21,111
Basic weighted shares outstanding	56,336,687	56,330,400
Net dilutive effect of stock options and restricted stock units	636,909	489,218
Diluted weighted average shares outstanding	56,973,596	56,819,618

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.

The FASB 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 Level 1	Significant other observable inputs Level 2	Significant other unobservable inputs Level 3
	US\$ 000	US\$ 000	US\$ 000
Year ended December 31, 2019			
Asset: Goodwill	3,303		3,303

Year ended December 31, 2020

Asset: Goodwill

3,294

3,294

3. Inventories

Inventories consisted of the following:

	Year ended December 31,	
	2020	2019
	US \$ 000	US \$ 000
Raw material	5,543	4,267
Finished goods and work in process	2,933	3,154
Remanufactured	2,651	4,868
Total	11,127	12,289

4. Acquisition

On January 15, 2019, the Company concurrently executed a settlement agreement and mutual release with Daniel R. Stoltzfus and Line Dragon, LLC (collectively "Line Dragon"), including an asset purchase agreement whereby the Company acquired substantially all of the business assets of Line Dragon (collectively the "Agreements"). The purchase price consists of US\$ 2,000,000 in cash and additional consideration (the "Performance Payments") during the period beginning on the day immediately following the close date and ending on May 29, 2031 (the "Performance Period"). The Performance Payments are calculated as 3% of gross revenues from the sale of SP-16 or Line Dragon concrete puller or placer equipment. The Performance Payments for any full calendar year during the Performance Period shall not be less than US\$ 30,000 and the Purchase Price, including the Performance Payments, is subject to a cap.

The purchase was treated as a business combination as it met certain criteria stipulated in ASC 805 - Business Combinations. The Company expects the acquisition of the Line Dragon assets will complement its SP-16 Line Pulling & Placing System product offering. The acquisition of Line Dragon is strategically significant in revenue for the Company, however at the time of the acquisition and at December 31, 2020, the Company concluded that historical results of the acquisition were not material to the Company's consolidated financial results and therefore additional pro-forma disclosures are not presented.

The Company completed the Line Dragon purchase price allocation. At close, of the total purchase price, approximately US\$ 187,000 was attributed to inventory, US\$ 25,000 was attributed to property and equipment, US\$ 1,048,000 was attributed to specifically identified intangible assets, including patents, trademarks and customer relations, US\$ 400,000 in other intangible assets and US\$ 351,000 was attributed to goodwill. The Company also assumed US\$ 11,000 of warranty liability. Subsequently, pursuant to the terms of the Agreement, the Company exchanged two sets of pulling and placing systems retained by Line Dragon with new models that the Company introduced commercially. As a result of this exchange, an additional US\$ 77,000 was attributed to goodwill.

5. 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, 2020 and 2019, and that the value of patents was not impaired as of December 31, 2020. The following table reflects other intangible assets:

		Weighted average Amortization Period	Year ended December 31, 2020 US\$ 000	2019 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	18,626	18,578
	Intangible Assets		6,510	6,405
			25,136	24,983
<i>Net carrying costs</i>	Patents	12 years	621	669
	Intangible Assets		924	1,029
			1,545	1,698

Amortization expense associated with the intangible assets in each of the years ended December 31, 2020 and 2019 was approximately US\$ 153,000 and US\$ 145,000, respectively.

6. Property, plant, and equipment

Property, plant, and equipment consist of the following:

	Year ended December 31,	
	2020	2019
	US\$ 000	US\$ 000
Land	864	864
Building and improvements	15,278	13,149
Machinery and equipment	6,906	5,414

	23,048	19,427
Less: accumulated depreciation and amortization	(6,539)	(5,713)
	16,509	13,714

Depreciation expense for the years ended December 31, 2020 and 2019 was approximately US\$ 965,000 and US\$ 977,000, respectively.

7. 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, 2020 or in 2019.

Interest expense for the years ended December 31, 2020 and 2019 was approximately US\$ 45,000 and US\$ 42,000, respectively, and relates primarily to interest costs on leased vehicles.

8. Retirement program

The Company has a savings and retirement plan for its employees, which is intended to qualify under Section 401(k) of the 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\$ 767,000 to the savings and retirement plan during 2020 and contributed US\$ 690,000 during 2019.

9. 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 12 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, 2020:

Operating lease cost	US\$ 000
Finance lease cost:	307
Amortization of right-of-use assets	222
Interest on lease liabilities	19
Total finance lease cost	241

As of December 31, 2020, the weighted average discount rate for finance and operating leases was 4.7% and 3.9%, respectively, and the weighted average remaining lease term for finance and operating leases was 3.0 years and 10.0 years, respectively. Maturities of lease liabilities are as follows for the years ended:

	Operating Leases US\$ 000	Finance Leases US\$ 000
2021	252	177
2022	199	133
2023	194	84
2024	163	21
2025	102	-
Thereafter	717	-
Total	1,627	415
Less imputed interest	(290)	(25)
Total	1,337	390

10. Supplemental cash flow and non-cash financing disclosures

	Year ended December 31,	
	2020	2019
	US\$ 000	US\$ 000
Cash paid for interest	45	41
Cash paid for taxes	5,491	6,315
Finance lease liabilities arising from obtaining right-of-use assets	(20)	245
Operating lease liabilities arising from obtaining right-of-use assets	108	1,229
Non-cash payment for intangible assets	-	257

11. 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, 2020 and 2019, the Company had five customers which represented 32% and three customers which represented 22% of total accounts receivable, respectively.

12. 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.

13. Income taxes

	Year ended December 31,	
	2020	2019
	US\$ 000	US\$ 000
Current Income Tax		
Federal	4,320	4,431
State	824	823
Foreign	216	389
Total current income tax expense	5,360	5,643
Deferred tax expense		
Federal	407	256
State	72	30
Foreign	-	-
Total deferred tax expense	479	286
Total tax provision	5,839	5,929

As of December 31, 2020 and 2019, the effects of temporary differences that give rise to the deferred tax assets are as follows:

	Year ended December 31,	
	2020	2019
	US\$ 000	US\$ 000
Deferred tax assets		
Bad debt allowance	277	220
Inventory	128	288
Accrued expenses	303	378
UK intangibles	105	105
Stock compensation	382	279
Italy - NOL	196	189
Australia- NOL	36	-
Lease liability	41	-
Other	182	202
Total deferred tax assets	1,650	1,661
Deferred tax liabilities		
Prepaid insurance	(130)	(109)
Fixed assets	(571)	(607)
Intangible assets	(590)	(191)
Right of use asset	(47)	-
Total deferred tax liabilities	(1,338)	(907)
Valuation allowance	(232)	(190)
Total net deferred tax asset	80	564

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,	
	2020	2019
	US\$ 000	US\$ 000
Consolidated income before tax	24,612	27,040
Statutory rate	21%	21%
Statutory tax expense	5,169	5,678
State taxes	723	681
Foreign taxes	(33)	(48)
Permanent differences due to stock options and RSUs	34	(70)
Permanent differences due to other items	25	(11)
Foreign derived intangible income	(323)	(458)
Change in valuation allowance	42	60
Change in reserve	76	108
Other	126	(11)
Tax expense	5,839	5,929

As of December 31, 2020, the Company has US\$ 936,000 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, 2020, 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, 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, 2019	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, 2019	958
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

The amount of unrecognized tax benefits as of December 31, 2020, 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 sheet 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\$ 76,000 and US\$ 108,000 as of December 31, 2020 and 2019, respectively. Interest and penalties related to unrecognized tax benefits are included in the provision for income tax expense.

14. Revenues by geographic region

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

	2020 US\$ 000	2019 US\$ 000
United States and U.S. possessions	70,683	65,534
Rest of World	17,889	23,772
Total	88,572	89,306

15. 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\$ 911,000 and US\$ 760,000 for the years ended December 31, 2020 and 2019, respectively. The income tax effect recognized for stock-based compensation was US\$ 0.05m and US\$ 0.1m, respectively, for the years ended December 31, 2020 and 2019.

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 2020 and 2019 is presented below:

	Shares	Grant date fair market value US\$
Outstanding at January 1, 2019	440,476	1,665,386
Granted	197,135	994,392
Vested or settled for cash	(148,581)	(332,194)
Forfeited	(2,940)	(15,000)
Outstanding at December 31, 2019	486,090	2,312,584
Outstanding at January 1, 2020	486,090	2,312,584
Granted	326,960	924,737
Vested and settled for cash	(115,759)	(411,661)
Forfeited	(31,221)	(138,633)
Outstanding at December 31, 2020	666,070	2,687,027

RSUs settled for cash were US\$ 0.2m in 2020 and US\$ 0.6m in 2019.

As of December 31, 2020, there was US\$ 1,111,000 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 1.5 years.

16. Employee compensation

The Board approved management bonuses and profit-sharing payments totaling US\$ 1.6m, partly paid in December 2020

and the remainder to be paid in early 2021, based upon the Company meeting certain financial targets.

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 2020, the Company issued 35,247 shares of common stock, valued at US\$ 100,000 at the time of grant. In March 2019, the Company issued 39,373 shares of common stock, valued at US\$ 201,000 at the time of grant.

17. Share buyback

In August 2020, the Board authorized a on market share buyback program 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, 2020, the Company purchased 268,013 shares of common stock for an aggregate value of \$950,330. The Company estimates the program will be completed by the end of H1 2021.

18. 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 12.81 US cents per share that will be payable on April 30, 2021 to shareholders on the register at April 9, 2021. Together with the interim dividend paid in October 2020 of 4.00 US cents per share, this represents a full year regular dividend to shareholders of 16.81 US cents per share. In addition, due to the strength of the Company's cash position at the end of 2020, and upon the review of anticipated future cash requirements for the business, the Board of Directors' has approved a supplemental dividend of 18.10 US cents per share that will be paid together with the final 2020 dividend on April 30, 2021 to shareholders on the register at April 9, 2021. The combined dividend payment on April 30, 2021 will total 30.91 US cents per share, representing a total dividend payment of US\$ 17.3m.

Distribution amount:	\$0.3091 cents per share
Ex-dividend date:	8 April 2021
Dividend record date:	9 April 2021
Final day for currency election:	23 April 2021
Payment date:	30 April 2021

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 Depository, Computershare Investor Services PLC.

All dividends, including both ordinary and supplemental, have the option of being paid in either GBP or USD. 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/formscatalogue.asp>. If shares are held as Depository 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 January 2021, the Board approved the 2020 Equity Bonus Plan, under which eligible senior managers can elect to receive up to 100% of their 2020 annual performance bonus in shares of common stock. The Company expects to issue shares for awards under the 2020 Equity Bonus Plan in 2021.

Share buyback

In February 2021, 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\$ 1,000,000. 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 2021.

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 15, 2021 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 19, 2021 will be entitled to receive notice of, and vote at, the AGM.

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