



LEADERS IN LEVELING

ANNUAL REPORT 2019

Somero® provides industry-leading concrete-leveling equipment, training, education and support to customers in over 90+ countries.

Strategic report

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Our world-class products and services allow contractors to complete every installation...

FASTER

MORE DONE IN LESS TIME

The use of Somero laser-guided technology enables our customers to install concrete slabs faster, flatter, and with fewer workers. Completing projects quicker and more efficiently is every contractor's dream.

Screed up to

5,000

**SQ FT PER HOUR WITH
SOMERO EQUIPMENT**

↓ Innovation

The Sky Screed® 25 is the first Laser Screed machine in the world designed for structural high-rise applications. The versatile articulating knuckle boom design provides unparalleled versatility with 360° rotation of the upper frame and screed head providing flexibility to screed around columns and other protrusions.

See more information on our vision & strategy on page 18



FLATTER

BUSINESS CRITICAL

The concrete floor is the most critical component of any building. It carries the load of the entire business operation. The floor is the foundation from which all other trades start their work and, if improperly installed, will show in the finished product and the operational efficiency of the building.

Golden Trowel® Awards won for industrial concrete floor production

157

USING SOMERO EQUIPMENT SINCE 1990⁽¹⁾

→ Application

Modern warehouses require high quality flat and level concrete floors. Floor flatness determines the types and heights of racking systems, how quickly material handling equipment can operate, maintenance costs, and most importantly, the safety of the warehouse.

■ See more information on our business model on page 16

Note:

1. The Golden Trowel® Award is given annually to commercial concrete contractors that achieve the highest industry standards in concrete floor construction.



FEWER

ELIMINATE LABOR COSTS

What used to take a full team of men 4 or 5 days can now be done by a Laser Screed machine in 1 day. This represents a cost-savings to companies of tens of thousands of dollars per job – or millions of dollars per year.

>50%

REDUCTION IN LABOR COSTS

→ Training and support

Somero has years of experience helping customers to solve the toughest application or maintenance challenges associated with Laser Screed® concrete leveling equipment. We provide expert help 24 hours a day, 7 days a week – so we'll always be there when customers need us.

■ See more information on our training and support on page 12



At a glance

WORLD-CLASS

Financial highlights

Revenue

US\$ 89.3m
-5%

2019	89.3m
2018	94.0m
2017	85.6m
2016	79.4m

Diluted adjusted net income per share^(1,3)

US\$ 0.37
-3%

2019	0.37
2018	0.38
2017	0.31
2016	0.27

Net cash⁽⁴⁾

US\$ 23.8m
-16%

2019	23.8m
2018	28.2m
2017	19.0m
2016	20.2m

Adjusted EBITDA^(1,2)

US\$ 28.7m
-7%

2019	28.7m
2018	30.8m
2017	28.0m
2016	24.6m

Cash flow from operating activities

US\$ 18.9m
-21%

2019	18.9m
2018	23.8m
2017	20.0m
2016	17.0m

Ordinary dividend per share

US\$ 0.1875
-1%

2019	0.1875
2018	0.190
2017	0.155
2016	0.111

Operational highlights

- Demand across markets and product lines remained healthy
- Better than anticipated H2 recovery in the US as weather conditions improved
- Good growth in North America, China, Latin America and India
- New products contributed meaningfully to growth
 - Sales of the Sky Screed® (the world's first Laser Screed machine to allow screeding on structural high-rise applications) and the Somero Line Dragon® product line (formerly the SP-16 Line Pulling & Placing System) (following its acquisition in January 2019) combined to contribute US\$ 2.2m in incremental 2019 sales
 - 3-D Profiler System® and Other revenues contributed US\$ 0.9m of incremental sales in 2019 compared to 2018

Post-period highlights

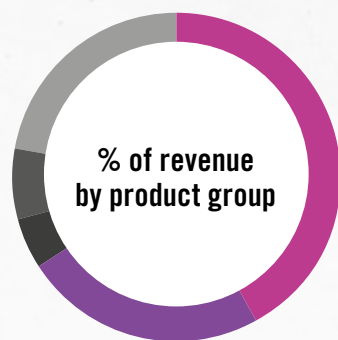
- In response to the rapidly evolving COVID-19 pandemic and the dramatic increase in pressure on Somero's non-China markets, the Company provided an update on 30 March 2020 announcing the cancellation of the US\$ 1.0m share buy-back, the postponement of the 30 April 2020 dividend payments, and the withdrawal of guidance for FY2020 as outlined in the 11 March 2020 final results. As a result of the change in outlook, certain views expressed in those results, including in the chairman's and chief executive's statements which are reproduced unedited in this annual report, are no longer reflective of the current situation. This report should therefore be read together with the 30 March 2020 update.

Notes:

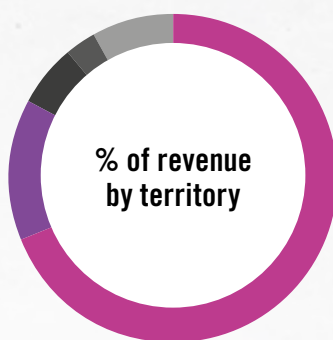
1. The Company uses non-US GAAP financial measures to provide supplemental information regarding the Company's operating performance. See further information regarding non-GAAP measures below.
2. Adjusted EBITDA as used herein is a calculation of the Company's net income plus tax provision, interest 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.

Visit us online at

www.somero.com/investors



Boomed screeds	42%	3-D Profiler System	07%
Ride-on screeds	24%	Remanufactured machines	05%
Other	22%		



North America	69%	China	06%
Europe	14%	Middle East	03%
Rest of World	08%		

Our products

Somero products are laser-guided, technologically innovative machinery used in horizontal concrete placement. By using Somero products, customers can expect flatter floors, increased productivity, and higher efficiency.

Somero pioneered the Laser Screed® machine market in 1986 and has led the market ever since through continued innovation, growing our product offering from a single model to a portfolio of 14 products. Our proprietary designs are protected by 73 patents and patent applications.

Our services

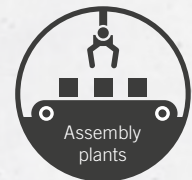
Every piece of Somero equipment is designed and built to provide maximum productivity and operation economy throughout its working life. Somero helps customers maintain that built-in value with a variety of services that include in-depth training, service contracts, extended warranty, equipment evaluation, and mechanical repairs. All of these offerings are in addition to our guaranteed 24 x 7 x 365 troubleshooting over the phone with our expert Somero technicians.



Our applications

Somero equipment is used to place and screed the concrete slab in all commercial building types, including all floors in multi-story buildings.

Our equipment has been used in construction projects for a wide array of the world's largest organizations including Amazon, Walmart, Costco, Home Depot, B&Q, Carrefour, IKEA, Mercedes-Benz, Coca-Cola, FedEx, Tesla and Prologis.



Patents and patent applications

73

Products in portfolio

14

Our locations

North America, Fort Myers, Florida:

Global headquarters and Somero Concrete Institute training facility

Houghton, Michigan:

Production, operations and support

UK, Chesterfield:

Sales and service office

India, New Delhi:

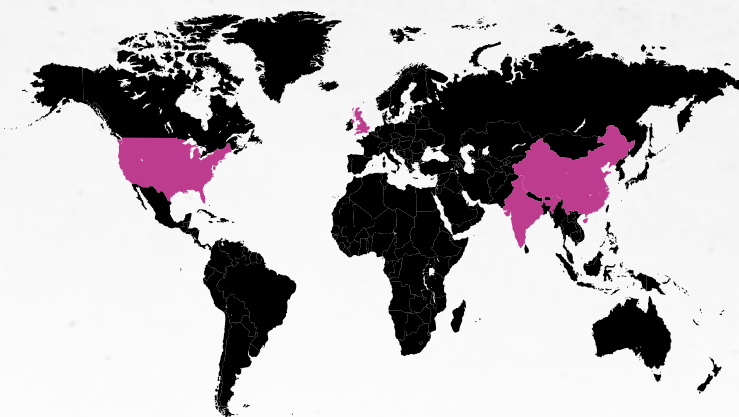
Sales and service office

China, Shanghai:

Sales, service and Somero Concrete College training facility

Customers in

90+
countries



INVESTING TO EXECUTE OUR GROWTH STRATEGY

Performance and dividend

We have delivered another year of strong profits and advanced our new product growth initiatives. Given the challenges faced over the period, particularly in the first half, I am very pleased with the numbers delivered, and the fact that the business recovered to a level higher than the top of our previous expectations demonstrates the underlying strength of our business.

Our strong balance sheet provides us with the flexibility to make investments to develop new products, expand our operational capacity, and add resources to sell and support our products and services 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 2019, we paid a record US\$ 17.4m in dividends. I am delighted to report that based on confidence in the business outlook, the Board has approved a final 2019 ordinary dividend of 13.0 US cents per share and a supplemental dividend of 7.7 US cents per share, which on a combined basis represents a US\$ 11.7m payment to shareholders. Both amounts are payable on April 30, 2020 to shareholders of record on April 14, 2020. Together with the interim dividend paid in October 2019 of 5.75 US cents per share, the 2019 full-year ordinary dividend is 18.75 US cents per share. The supplemental dividend declared is in accordance with the Company's supplementary dividend policy adopted on March 14, 2018 that states the Company intends to distribute 50% of the excess of net cash over the year-end target of US\$ 15.0m.

The Board has also approved a US\$ 1.0m share buyback program for the purpose of mitigating future dilution resulting from share issuances under the Company's equity award programs. We expect to complete this program in H1 2020.

Strategic progress

Innovation is at the core of our strategy. The launch of the Sky Screed® 25 in January 2019 marked a new chapter in Somero's legacy of innovation and opened a new, untapped market segment. The Sky Screed® is a disruptive technology that will dramatically change the way work is done on structural high-rise jobsites. Not only did we achieve our target of US\$ 1.0m in first year Sky Screed® sales, we also gained a deep understanding of this new market segment and the jobsite challenges our customers face. Based on our 2019 success along with the knowledge and experience we gained, we are confident in the meaningful long-term growth opportunity this product and the broader market segment represents.

Our presence outside our main US market remains strong and presents significant opportunity for the future. Revenues outside North America in 2019 represented 27% of total sales in 2019 compared to 31% in 2018 as a result of several specific regional challenges. However, non-residential construction market conditions remain generally positive across the globe, we are seeing meaningful contributions from new products outside the US, and we have a clear strategy in place to deepen our penetration of non-US markets by promoting adoption of wide-placement theory and quality concrete flooring standards. Together, these factors give us confidence that our international markets represent a significant long-term opportunity for Somero.

Our people

The Board enjoyed active engagement with the full management team during the year, witnessing first-hand the commitment and energy of the teams that run the business. The strength of our people and culture is a key driver of our success and essential in delivering shareholder value. We are extremely proud to work with such a talented group of employees who work passionately to help our customers achieve their business goals. On behalf of the Board, I would like to thank the management team and all 179 Somero employees located throughout the world for delivering these outstanding 2019 results.

Coronavirus

Whilst we have not seen an impact to date on our business, we are closely monitoring the evolving Coronavirus situation. Our supply chain has been unaffected as we do not source components from China and while we have yet to see delays in projects outside of China, we remain in the early stages of understanding the impact of the virus. We will provide updates in due course if we anticipate our full-year 2020 results will be impacted.

Outlook

The Board is confident in the outlook for 2020 with the solid momentum in the US carrying forward from 2019 supported by the strength of the US customer project backlogs that span well into 2020. Outside of the US, while market conditions and activity levels remain generally positive, the Board continues to recognize factors impacting each market that slightly temper underlying growth expectations for 2020.

The Board is also confident in the significant long-term growth opportunity from new products such as the Sky Screed®, and reflective of this confidence, and as announced on 22 January, the Board has made the decision to increase investment in the Sky Screed® to support its future growth. This investment will primarily consist of adding sales and support staff for new products and will drive an increase in operating costs that slightly tempers our overall profitability expectations for 2020. Thanks to our strong financial position and positive momentum, the business is in a good position to be able to make this investment now, in order to feel the benefit in future years.

With this comprehensive view, the Board expects 2020 will be a profitable year with healthy cash generation. Revenues are expected to be comparable to 2019 with EBITDA broadly in line with 2019 and in line with current market expectations.

Larry Horsch

Non-Executive Chairman
March 11, 2020

CORE VALUES

At Somero we believe in a set of core values for how we do business, how we innovate, how we treat our customers and employees. Our values include:

- 01 A commitment to teaching and learning
- 02 An ability to solve problems in creative ways
- 03 Being accountable and taking ownership
- 04 Operating with a sense of urgency
- 05 Proactive honest communication
- 06 Embracing and driving change
- 07 Having fun
- 08 Expressing our passion through amazing service
- 09 Making things simple

Read more about our values at www.somero.com/about-us/our-core-values



A strong culture

Every Somero employee is committed to delivering world-class products and services that enable customers to meet their business and profitability goals.



President & Chief Executive Officer's review

THE NEXT PHASE OF INNOVATION

We are excited by the opportunities that lie ahead, and I am confident in our ability to execute our strategy, delivering strong results and dividends for our shareholders.

SOMERO'S JOURNEY

Somero started as a single product company in 1986 and has grown its portfolio to 14 products over 30 years. We are always looking for ways to improve the construction industry and what we can provide.



Overview

Following a well-documented challenging start to 2019, strong and profitable trading ahead of the Board's expectations in H2 meant we finished the year strong. Revenues in H2 2019 were US\$ 50.3m, a record level of sales and an increase over the US\$ 49.0m reported in H2 2018, as the US fully recovered from historic levels of rainfall during the first half of 2019. Led by the strength of H2 trading in the US, we reported combined 2019 sales of US\$ 89.3m, EBITDA of US\$ 28.7m and ended the year with US\$ 23.8m in net cash, all of which were ahead of the guidance provided on 11 July 2019.⁽¹⁾

The strength of the cash generation of the business enabled the Company to pay US\$ 17.4m in dividends in 2019, a record for cash returned to shareholders, and still maintain a strong and secure financial position to start 2020. Most importantly, we took a significant step forward with our new product growth initiatives marked by the successful launch of our Sky Screed® 25.

Region reviews

Three of our six markets grew in 2019 compared to 2018 led by North America and followed to a lesser extent by Latin America and China.

In North America, as weather conditions began to normalize across broad sections of the US in H2 2019 and previously delayed projects were started, trading activity accelerated. This improvement ultimately resulted in H2 2019 sales in North America of US\$ 38.3m, a 12% increase over H2 2018, and full-year sales of US\$ 65.5m, a 1.2% increase compared to 2018. Overall, this was a significant improvement from H1 2019 when sales were US\$ 27.2m, down US\$ 3.2m compared to H1 2018. General market conditions in North America remain favorable as we enter 2020. With a high level of non-residential construction activity, a continued shortage of skilled labor and extended customer project backlogs that span well into 2020, partly the result of ongoing recovery from inclement weather during H1 2019, the outlook for our largest market remains optimistic.



In Europe, 2019 sales declined to US\$ 10.0m compared to US\$ 13.5m in 2018, reflecting the impact of economic uncertainty across the region on customer equipment purchase decisions. Project activity levels across the region were encouraging as we sold products into eighteen countries there in 2019, with the most significant contributors being the UK, Poland, Hungary, Belgium and France. We see significant opportunities across the region for 2020 with the main drivers of performance being demand for replacement equipment, technology upgrades and new products.

We are also pleased with our 2019 performance in China despite the turmoil from the US-China tariff dispute. Revenues for this market grew to US\$ 5.6m, up from US\$ 5.3m in 2018, reflecting a focus on the products favored in the market and effective demand generation and sales execution led by our in-country management. The longer-term opportunity in China will ultimately be driven by demand for quality concrete floors by building owners and end-users. We will continue to pursue market development efforts to drive this acceptance and demand.

In Latin America, 2019 sales were US\$ 2.0m, up US\$ 0.3m compared to 2018, as 2019 project activity remained solid. During the year, the most significant contributions in the

region came from Mexico and Chile. We remain encouraged by the activity seen in this region, particularly in Mexico and Brazil, albeit in the early stages, and expect to see improvement in 2020.

The Middle East was negatively impacted by economic and geopolitical uncertainty. 2019 sales in the Middle East were US\$ 0.7m, a decline of US\$ 1.7m compared to 2018. Although activity levels in the region were generally solid throughout the year, these prospects did not translate into trading as a result of customer cautiousness. The main contributors to sales during the period in the Middle East were Turkey, the United Arab Emirates and Egypt.

In our Rest of World region, 2019 sales declined US\$ 0.9m from 2018. The two major territories comprising most of this region are Australia and India. Australia represented much of the decline in 2019 due primarily to a weakened local currency that slowed the pace of trading. Despite the impact of currency, we continue to see positive non-residential construction activity in this market. We are also pleased with the traction we continue to gain in India as sales grew to US\$ 1.4m in 2019, a 34% increase from 2018, and are encouraged by signs of increasing demand for quality concrete floors in this market.

Cashflow and balance sheet

Somero's earnings and the cash flow generated from these profits were strong in 2019. The Company delivered US\$ 18.9m in operating cash flow in 2019, down from US\$ 23.8m in 2018 due to the timing of tax payments and the strong finish to 2019 trading that resulted in an increase in trade receivables carrying over into 2020, and ended the year with US\$ 23.8m in net cash.

This robust financial position allowed the Company to comfortably maintain a dividend pay-out ratio of 50% and the Company's supplemental dividend policy. Under this dividend policy, the Company paid a total of US\$ 17.4m in dividends to shareholders in 2019, a record for the Company. I am pleased to report that reflecting the Board's confidence in the business outlook for the Company and in the strength of cash generation from the business, the Board has declared a final 2019 ordinary dividend of 13.0 US cents per share and a supplemental dividend of 7.7 US cents per share, both payable on April 30, 2020 that combined will result in a US\$ 11.7m dividend payment to shareholders.

Product development

New products are a significant growth driver of the business, and in 2019 two new products, the Somero Line Dragon® (the new generation SP-16 Line Pulling & Placing System) and the Sky Screed® 25, combined to contribute US\$ 2.0m in incremental sales compared to 2018. This contribution was meaningful to the 2019 results and the launch of the Sky Screed® 25 was an important milestone for the Company. Over the last two years, a significant portion of our product development resources have been focused on designing and developing solutions for the high-rise structural market. The launch of the Sky Screed® 25 was the culmination of this multi-year effort. We met our first year target of achieving US\$ 1.0m in Sky Screed® sales, gained a deep understanding of an exciting new market segment, and now enter 2020 with confidence in both our product offering and in the meaningful long-term growth opportunity this product and the broader market segment represents.

2015

S-10A Laser Screed
Floor Levelness System

2019

Somero® Line Dragon®
Sky Screed® 25

14

2014

S-485 Laser Screed
S-22EZ Advanced Laser Screed

2016

S-158c
S-940 Laser Screed

PRODUCTS

President & Chief Executive Officer's review continued

As such, as previously communicated with the market, the Board has made the decision to increase investment in resources targeted at developing, selling and supporting new products, such as the Sky Screed®, in 2020 and beyond. We are confident in our ability to deliver on these initiatives alongside continuing to deliver profitable growth for our shareholders.

Expansion update

The Company has made significant progress on the US\$ 3.5m expansion to our Houghton, Michigan facility. The project will add 35,000 square feet to the facility, provide our assembly operations with needed space to accommodate new products, and add needed office space for our customer support and engineering teams. The project is on track to be completed in Q1 2020 with approximately half of the planned project cost to be expended in 2020.

The US\$ 0.5m planned expansion to the Global Headquarters and Training Facilities in Fort Myers, Florida has been delayed due to a backlog in the municipality permitting process. Timing to complete the project is currently being evaluated by management and we will provide an update in due course.

Conclusion

2019 was a good year of progress for Somero. We delivered robust financial results, returned a record level of cash to shareholders and made significant progress on our new product initiatives. We will look to continue on our journey towards capitalizing on the substantial and wide-ranging opportunities in front of us, and I am confident our management team is up to the task. We are pleased with the health of the North American market that is supported by customer project backlogs that extend well into 2020, encouraged by opportunities in our international markets, and excited by the long-term opportunity of our new products.

As our performance in 2019 clearly illustrates, our talented and agile management team with a flexible operating platform can steer us through challenges without losing focus on our growth objectives. 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 11, 2020

Note:

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

INDUSTRY EXPERTISE, TRAINING & SUPPORT

Somero sees training not as an added benefit for our customers; we see this as an absolute must. When customers invest time and money with a Somero machine, we are certainly going to invest time to make sure they get the most out of their new Laser Screed®.

Somero offers in-depth hand-off training for customers that covers a variety of topics ranging from hands-on Laser Screed® operation, maintenance and troubleshooting to how to handle specific job-site situations. After initial training, we provide customers 24/7 phone support across the globe for any questions or support-related matters. We've also been known to fly a support representative to assist with any matters that need to be dealt with in-person.

We have taken our passion for our customers' success one step further by developing the Somero Concrete Institute. Through in-depth hands-on training, customers benefit from real-world experience at our one-of-a-kind training facility in Fort Myers, Florida. We offer training for all levels of industry professionals, from new to advanced operators, with each course tailored to specific responsibilities and skill sets in addition to American Concrete Institute certification.



Somero Concrete Institute, Fort Myers, Florida

Investment case

OUR CORE STRENGTHS

Our performance in 2019 is a great illustration of the strength of our management team, the flexibility of our operating model, and our commitment to driving long-term growth.

01

Industry leader in introducing customer driven, technologically advanced new products

02

Minimal direct competition

03

Significant barriers to entry based on technology, education, and global technical support

04

Skilled management team with extensive industry experience

05

Attractive global geographic growth opportunity:

- Solid growth and market dynamics in developed markets
- Strong potential for growth in emerging markets

06

Strong and consistent financial performance:

- Superior margins
- Strong conversion of revenue growth into free cash flow
- Strong, unleveraged balance sheet
- Disciplined return of cash to shareholders through dividends

Market overview

OPPORTUNITY FOR GROWTH

Demand for Somero's equipment is driven by factors that apply across all the regions we serve – the need for quality floors and a shortage of skilled workers.

“
We enter 2020 in a strong financial position, allowing us to make investments to capture growth in new and existing markets with a growing product offering.

Jack Cooney
President and Chief Executive Officer

↓ New Houghton expansion
Somero expects to complete its US\$ 3.5m expansion to our Houghton, Michigan facility in H1 2020. This expansion adds 35,000 square feet to the facility, providing our assembly operations with needed space to accommodate our broadening product line.



Location

NORTH AMERICA

Estimated 2020 global cement consumption⁽¹⁾

03%

EUROPE

Estimated 2020 global cement consumption⁽¹⁾

05%

CHINA

Estimated 2020 global cement consumption⁽¹⁾

55%

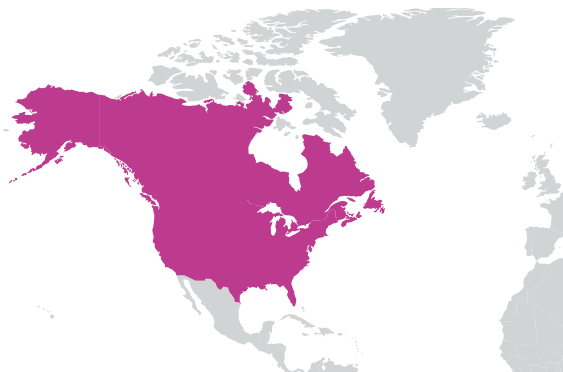
REST OF WORLD

Estimated 2020 global cement consumption⁽¹⁾

36%

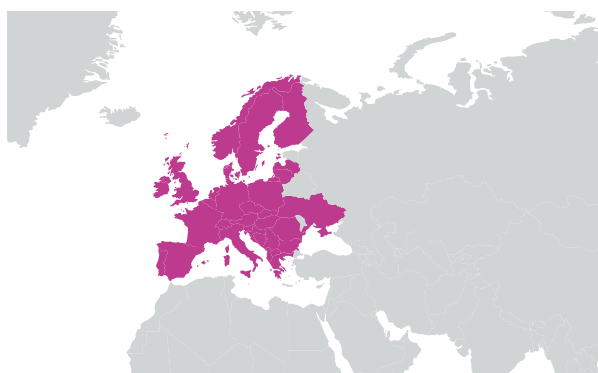
Market dynamics

Drivers of growth



- Largest market
- Commercial construction industry fundamentals remain positive in the US
- Healthy economy supported by extended customer project backlogs are positive factors for US construction industry outlook

- US non-residential construction spend forecast to grow by 3% annually through to 2020⁽²⁾
- New technology to upgrade fleet of installed equipment
- Fleet additions
- New product introductions
- Shortage of skilled labor in concrete construction industry



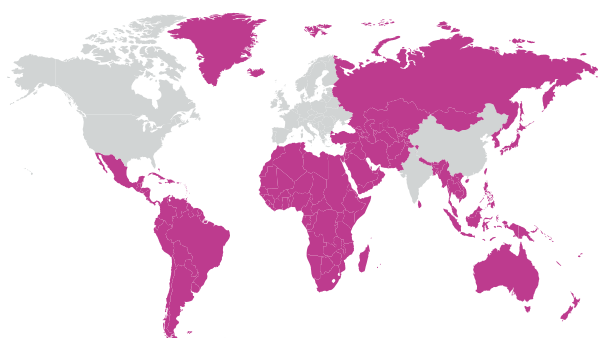
- Second largest installed base of equipment
- Healthy commercial construction outlook across the European region

- Increased commercial construction activity across mainland Europe
- New technology to upgrade installed base of equipment
- Fleet additions
- New product introductions
- Shortage of skilled labor in concrete construction industry



- Most significant opportunity for long-term growth outside North America
- Cement consumption forecast to represent over 50% of 2020⁽²⁾ world cement consumption
- Current market penetration very low

- Large multinational projects requiring high-quality floors adhering to Western standards
- Broader domestic acceptance of wide-placement and Western flatness, levelness floor specifications
- Increased availability of long-term financing options for customers
- New product introductions
- Increasing shortage of skilled labor



- Current market penetration very low
- Most significant opportunity in region is India that is forecast to represent 8% of 2020⁽²⁾ world cement consumption
- Significant opportunities in the Middle East, Southeast Asia, Latin America and Australia

- Accelerating commercial construction activity across mainland Europe
- New technology to upgrade installed base of equipment
- Fleet additions
- New product introductions
- Shortage of skilled labor in concrete construction industry

Notes:

1. Source: Cembureau, Cemnet and Morgan Stanley.
2. FMI Research Services Group 2019 Construction Outlook Report.

Business model

OUR SIMPLE & PROVEN MODEL

The use of Somero equipment and service delivers significant benefits to our customers and the owners and end-users of the completed construction projects, a true win-win proposition.

Somero is much more than simply a seller of equipment. We are committed to making our customers successful in their businesses by providing unparalleled industry expertise, service, training and support and by developing innovative new products that address our customers' needs.

Jack Cooney
President and Chief Executive Officer

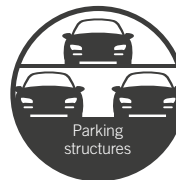
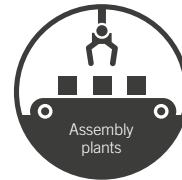
What we do

Somero customers

Small, medium and large concrete contractors and self-performing general contractors. Somero operates in markets across the globe, selling products in 90+ countries with minimal direct competition.

Applications

Somero's laser-guided technology and wide-placement methods have been specified for use in a wide range of construction projects.



Building owners and end-users

Somero equipment has been used in construction projects for a wide array of the world's largest organizations.

What makes us different

Our beneficiaries



Innovative product leadership

- Pioneered Laser Screed® machine market in 1986
- Product portfolio grown to 14 products
- Designs protected by 73 patents/applications
- Product development fueled by customer engagement



Industry expertise, training and support

- Proven commitment to exceptional classroom/job-site training
- 24/7 direct global support (in 10 minutes, all major languages)
- Overnight spare parts delivery, next day world travel
- Somero Concrete College & Institute



Key benefits to our customers

- Increases quality
- Productivity
- Profit
- Direct access to Somero expertise, training and support

Key outcomes for building owners and end-users

- Operational efficiency
- Improved physical appearance
- Lower floor maintenance cost
- Lower forklift repair cost



Key benefits to our employees

- Challenging and rewarding work environment full of opportunity
- Investment in training to help each employee reach their full potential

Key benefits to our investors

- Strong, consistent financial performance
- Significant growth opportunity in new and existing markets
- Strong, unleveraged financial position
- Disciplined return of cash to shareholders



Our vision & strategy

A ROADMAP FOR SUSTAINABLE GLOBAL GROWTH

Our strategy is to provide innovative products and solutions to concrete flooring contractors that enable them to attain the highest level of flat-floor precision at the lowest cost, and to develop and penetrate the global market for our products and services.

INNOVATING FOR THE FUTURE

Our strategy

Our strategy for growth is to leverage our strengths, expand and deepen our global footprint, and continue to provide innovative products.



Product innovation

Somero continues to push the industry forward with innovative proprietary designs. We currently offer 14 products protected by 73 patents and patent applications. In 2019, we launched the Sky Screed® 25, the world's first laser screed for use in structural high-rise applications and launched the next-generation Somero Line Dragon® (formerly the SP-16 Line-Pulling and Placing System). These products combined to contribute US\$ 2.2m of incremental sales compared to 2018.

Find out more at www.somero.com/products



International expansion

Somero is committed to growing our business globally through continued investment in adding international employees and promoting adoption of wide-placement theory and quality concrete flooring standards. Currently, 30% of our non-operational employees are located internationally. Our presence outside our main US market remains strong and presents a significant opportunity for the future that we anticipate will also benefit from new products.

LATEST PRODUCTS

Product innovation

Product development for Somero has always been a customer led process. We understand customer involvement throughout the development cycle is critical to ensure our ideas turn into tangible products that create meaningful value for our customers.



Somero Line Dragon®

In January of 2019, Somero acquired Line Dragon and the synergies from this acquisition have resulted in the industry's most advanced Placer and Puller machine. Introducing the next generation, the Somero Line Dragon® Line-Pulling and -Placing System.

Somero Sky Screed® 25

The Sky Screed® 25 provides labor savings, improved floor quality and increased productivity that will allow customers to save time and money on their next project. Importantly, the Sky Screed® 25 is the first step in a longer-term product development journey to penetrate a completely new market segment for Somero, structural high-rise applications.



Strategy in action



PRODUCT INNOVATION

REACHING NEW HEIGHTS



← Future focused

Bringing the Sky Screed® 25 to market was the result of two years of dedicated market research and direct engagement with customers to understand their challenges that formed the basis for designing an innovative solution to these challenges. The Sky Screed® 25 is the first Laser Screed® machine in the world designed for screeding on structural high-rise applications. The versatile articulating knuckle boom design provides unparalleled versatility with 360° rotation of the upper frame and screed head providing flexibility to screed around columns and other protrusions.

Financial review

Summary of financial results

	Year ended December 31,	
	2019 US\$ 000 except per share data	2018 US\$ 000 except per share data
Revenue	89,306	94,001
Cost of sales	38,602	40,375
Gross profit	50,704	53,626
Operating expenses		
Selling, marketing and customer support	11,108	11,059
Engineering and product development	1,796	1,357
General and administrative	11,198	12,037
Total operating expenses	24,102	24,453
Operating income	26,602	29,173
Other income (expense)		
Interest expense	(42)	(54)
Interest income	241	188
Foreign exchange impact	(71)	(42)
Other	310	(191)
Income before income taxes	27,040	29,074
Provision for income taxes	5,929	7,531
Net income	21,111	21,543
	Per Share US\$	Per Share US\$
Basic earnings per share	0.37	0.38
Diluted earnings per share	0.37	0.38
Basic adjusted net income per share ^{(1) (2) (4)}	0.38	0.38
Diluted adjusted net income per share ^{(1) (2) (4)}	0.37	0.38
Other data		
Adjusted EBITDA ^{(1) (2) (4)}	28,714	30,837
Adjusted net income ^{(1) (3) (4)}	21,126	21,407
Depreciation expense	977	1,175
Amortization of intangibles	145	–
Capital expenditures	3,015	803

Notes:

- 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.
- 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.
- 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.
- 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,	
	2019 US\$ 000	2018 US\$ 000
Adjusted EBITDA reconciliation		
Net income	21,111	21,543
Tax provision	5,929	7,531
Interest expense	42	54
Interest income	(241)	(188)
Foreign exchange impact	71	42
Other	(310)	191
Depreciation	977	1,175
Amortization	145	–
Stock-based compensation	760	489
Non-cash lease expense	230	–
Adjusted EBITDA	28,714	30,837
Adjusted net income reconciliation		
Net income	21,111	21,543
Amortization	145	–
Tax impact of stock option & RSU settlements	(130)	(136)
Adjusted net income	21,126	21,407

Notes:

- 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.
- 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.
- 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.
- 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 declined by 5% to US\$ 89.3m (2018: US\$ 94.0m). Company revenues consist primarily of sales from Boomed screed products, which include the S-22E, S-22EZ, S-15R and S-10A Laser Screed machines, sales from Ride-on screed products, which are drive through the concrete machines that include the S-840, 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), Sky Screed® 25 and Other revenues which consist primarily of revenue from sales of parts and accessories, sales of other equipment, service, training and shipping charges.

Ride-on screed sales declined to US\$ 16.9m (2018: US\$ 22.9m) due to lower volume, partially offset by price increases, Boomed screed sales declined to US\$ 38.0m (2018: US\$ 39.1m) due to lower volume, partially offset by price increases, the Somero Line Dragon, including SP-16 Concrete Hose Line-Pulling and Placing Systems, sales increased to US\$ 2.8m (2018: US\$ 1.6m) due to higher volume, the Sky Screed® 25 contributed US\$ 1.0m, and Other revenues increased to US\$ 20.0m (2018: US\$ 19.2m) primarily due to increased sales of parts and accessories.

Financial review continued

Revenue breakdown by geography

	North America		EMEA ⁽¹⁾		ROW ⁽²⁾		Total			
	US\$ in millions		US\$ in millions		US\$ in millions		US\$ in millions			
							2019		2018	
	2019	2018	2019	2018	2019	2018	Net sales	% of Net sales	Net sales	% of Net sales
Boomed screeds ⁽³⁾	27.4	27.0	4.9	8.7	5.7	3.4	38.0	42.6%	39.1	41.7%
Ride-on screeds ⁽⁴⁾	12.7	16.6	2.3	4.0	1.9	2.3	16.9	18.9%	22.9	24.4%
Remanufactured machines	3.0	2.3	0.7	0.4	0.7	2.4	4.4	4.9%	5.1	5.4%
3D Profiler System	5.8	5.3	0.2	0.2	0.2	0.6	6.2	6.9%	6.1	6.5%
Somero Line Dragon ⁽⁵⁾	2.2	1.5	0.5	0.1	0.1	–	2.8	3.2%	1.6	1.7%
Sky Screed® 25	1.0	–	–	–	–	–	1.0	1.1%	–	–
Other ⁽⁶⁾	13.4	12.0	2.1	2.5	4.5	4.7	20.0	22.4%	19.2	20.3%
Total	65.5	64.7	10.7	15.9	13.1	13.4	89.3	100.0%	94.0	100.0%

Notes:

- EMEA includes the Europe, Middle East, Scandinavia and Russia markets.
- ROW includes the China, Australia, Latin America, Korea, India and Southeast Asia markets. In the 2018 Annual Report, India was included in EMEA. India has been reclassified in the above table and is included in ROW for the years presented.
- Boomed Screeds include the S-22E, S-22EZ, S-15R, and S-10A.
- Ride-on Screeds include the S-840, S-940, S-485, and S-158C.
- Includes sales of the Somero Line Dragon and its predecessor the SP-16 Concrete Hose Line-Pulling and Placing Systems.
- Other includes parts, accessories, services and freight, as well as other equipment such as the STS-11M Topping Spreader, Copperhead, and Mini Screed C.

Units by product line	2019	2018
Boomed screeds	128	132
Ride-on screeds	159	234
Remanufactured machines	27	35
3D Profiler System	56	59
Total	370	460

Sales to customers located in North America contributed 73% of total revenue (2018: 69%), sales to customers in EMEA (Europe, Middle East, Scandinavia, and Russia) contributed 12% (2018: 17%) and sales to customers in ROW (Southeast Asia, Australia, Latin America, India and China) contributed 15% (2018: 14%).

Sales in North America were US\$ 65.5m (2018: US\$ 64.7m) up 1.2% driven by higher volume and price increases across most of the product lines, coupled with incremental sales from new products including the Somero Line Dragon, the Sky Screed® 25 and an increase in Other revenues. Sales in EMEA were US\$ 10.7m (2018: US\$ 15.9m) which is down 33% primarily due to a decline in Boomed screed, Ride-on screed sales, and Other revenues, offset by an increase in sale of Somero Line Dragon (formerly SP-16 Concrete Hose Line-Pulling and Placing Systems). Sales in ROW were US\$ 13.1m (2018: US\$ 13.4m), representing a 2.0% decline driven by lower sales of Ride-on screeds, Remanufactured machines, 3D Profiler Systems and Other revenues, offset by an increase in Boomed screed sales.

Regional sales	US\$ in millions	
	2019	2018
North America	65.5	64.7
Europe	10.0	13.5
China	5.6	5.3
Middle East	0.7	2.4
Latin America	2.0	1.7
Rest of World ⁽¹⁾	5.5	6.4
Total	89.3	94.0

Note:

- ROW includes Australia, India, Southeast Asia, Korea and Russia.

Gross profit

Gross profit declined to US\$ 50.7m (2018: US\$ 53.6m), with gross margins remaining steady at 57.0% with modest selling price increases, favorable product and geographical mix, and productivity gains, offsetting normal inflationary cost increases.

Operating expenses

Operating expenses declined by US\$ 0.4m to US\$ 24.1m (2018: US\$ 24.5m). This decrease is due to lower administrative costs, offset by higher engineering and product development expenses.

Debt

As of December 31, 2019, the Company had no outstanding debt and there were no changes to the Company's US\$ 10.0m secured revolving line of credit which will mature in February 2021.

Other income (expense)

Other income (expense) was US\$ 0.4m of other income, compared to other expense of US\$ 0.1m in 2018, primarily due to a gain on a non-cash payment for intangible assets.

Provision for income taxes

The provision for income taxes was US\$ 5.9m in 2019 compared to US\$ 7.5m in 2018. Overall, Somero's effective tax rate changed to 21.9% in 2019 from 25.9% in 2018.

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 stock options and restricted stock units. Earnings per common share has been computed based on the following:

	Year ended December 31,	
	2019 US\$ 000	2018 US\$ 000
Income available to stockholders	21,111	21,543
Basic weighted shares outstanding	56,330,400	56,276,778
Net dilutive effect of stock options and restricted stock units	489,218	451,573
Diluted weighted average shares outstanding	56,819,618	56,728,351
	Per Share US\$	Per Share US\$
Basic earnings per share	0.37	0.38
Diluted earnings per share	0.37	0.38
Basic adjusted net income per share	0.38	0.38
Diluted adjusted net income per share	0.37	0.38

Risks and uncertainties

The key risks and uncertainties facing the Company are considered as part of the Company's established process for identifying, evaluating and managing risk. Impacts of significant risks and their mitigation are monitored at Board meetings throughout the year and are subject to annual review by the Audit Committee. The key risks facing the business and the processes in place to manage those risks are:

Bank obligations

In February 2016, the Company entered into an amended credit facility that included a US\$ 10.0m secured revolving line of credit that will mature in February 2021. The Company's credit facility is secured by substantially all its business assets.

Employee retention

The Company has a number of programs in place to retain key employees including a savings and retirement match for employees, restricted stock units (RSUs) for employees, stock options for key employees and a compensation program to attract and retain key employees.

Economic and industry conditions

Somero's financial performance is affected by a number of factors, including the cyclical nature of the non-residential concrete construction industry, as well as the varying economic conditions of its geographic markets. Somero's primary geographic markets are North America, Europe and China, however, the Company has a growing presence in Southeast Asia, Eastern Europe, Australia, the Middle East, Africa and Latin America. Demand in these markets continues to fluctuate in response to overall economic conditions and to the amount of private sector spending on commercial construction projects.

Product development

Somero invests over 2.0% of sales on product development and introduces new products each year. Somero's product development effort is a customer driven process focused on customer needs and value requirements. New products are meaningful contributors to the Company's growth. In 2019, sales of the Sky Screed® 25 and the Somero Line Dragon® combined to contribute US\$ 2.2m in incremental 2019 sales compared to 2018.

Product replacement demand

The Company's financial performance is also dependent on the replacement and refurbishment of older products as they reach the end of their expected life cycles. Somero equipment is in a period of demand for replacement as older machines reach the end of their life cycles. Somero's level of replacement demand is also dependent on its ability to continue developing enhanced models with advanced technology that encourage customers to replace older machines.

Global market penetration

Somero's financial performance is impacted by its ability to successfully enter and penetrate international markets. Europe and China represent Somero's primary markets outside the US, and Somero has primarily focused on developing these markets with a secondary focus on Latin America, Australia, Middle East, Southeast Asia and India. Somero's primary market development activities are to promote the benefits of the Company's technology, wide-placement theory, and the demand for quality flat and level floors through education and marketing efforts in emerging markets.

Interest rates

Somero's financial performance is also linked to prevailing interest rates; see "Liquidity and Capital Resources" below. In February 2016, the Company entered into an amended credit facility that included a US\$ 10.0m secured revolving line of credit that will mature in February 2021. The Company's credit facility is secured by substantially all its business assets.

Liquidity and capital resources

Liquidity

The Company's principal liquidity needs are for payroll, lease obligations, purchases of component parts and other inventory items, payments for professional services from third party providers, and interest and principal payments on its long-term debt. The Company's primary sources of liquidity are cash balances, cash provided by operations and its available revolving line of credit with Citizens Bank of up to US\$ 10.0m. Operations are primarily funded through existing cash.

Capital resources

Currently, the Company's capital expenditure plans include investment in tools and equipment to increase the efficiency of the assembly and remanufacturing processes and regular replacement of information technology equipment. One element of Somero's strategy is to identify and acquire businesses that have complementary products and services. Somero may finance such future acquisitions from internally generated funds, bank borrowings, public or private securities offerings or some combination of these methods. In addition, the Company may issue debt or equity securities as some or all of the consideration for such acquisitions. Somero cannot predict the level of financing that may be required in connection with future acquisitions. As of December 31, 2019, the Company had not drawn any amounts under the revolving portion of its Citizens Bank Financing Agreement.

The strong performance and relationship with its bank enabled the Company to amend its credit facility so that it matures in February 2021. The amended facility allows management access to funding if needed to implement its strategic plan, successfully introduce new products into the market and maximize opportunities from investments in emerging markets.

The Company's financing agreement with Citizens Bank imposes various restrictions and covenants on the Company which could potentially limit its ability to respond to market conditions, to provide for unanticipated capital investments or to take advantage of business opportunities. The restrictive covenants include limitations on the incurrence of additional indebtedness, limitations on the creation of liens and limitations on asset sales and other fundamental changes, limitations on payment of dividends and limitations on the redemption or repurchase of outstanding capital stock, among other restrictions. The covenants also include financial measures such as a minimum debt service ratio, minimum net tangible asset ratio and a maximum funded debt to EBITDA ratio. The Company was in compliance with all debt covenants at the end of 2019. The Directors believe that funds generated from operations, together with existing cash, will be sufficient to meet the Company's debt obligations over the next 12 months. The Directors also expect that existing cash, available funds from the financing agreement with Citizens Bank, and funds generated from operations will be sufficient to meet anticipated operating requirements and to fund planned capital expenditures for the remainder of 2020.

Somero had capital expenditures of US\$ 3.0m in 2019 and US\$ 0.8m in 2018. The majority of the expenditures during these periods were related to construction of the new Houghton facility expansion and the Somero Concrete Institute building in Florida, computer hardware and software upgrades and information technology upgrades.

The Directors will, from time to time, evaluate opportunities to sell equity or debt securities, and/or obtain credit facilities from lenders, which could result in dilution to the Company's stockholders and increased interest expense.

This Strategic report was approved by the Board on March 11, 2020 and signed on its behalf by:

Jack Cooney

President and Chief Executive Officer
March 11, 2020

Board of Directors

Lawrence L. Horsch

Non-Executive Chairman of the Board

Mr. Horsch, age 85, came to Somero in October 2009 with extensive experience having served on 26 company boards, invested in 30 venture projects and conducted four corporate turnarounds. He co-founded SciMed Life Systems prior to its merger with Boston Scientific Corporation, after which he served on the Boston Scientific Corporation board. Mr. Horsch currently serves as the Chairman of Leuthold Funds Inc. and Pioneer Sales Group. Mr. Horsch has been a business consultant since 1990. He is a graduate of the University of St. Thomas, received an MBA in Finance from Northwestern University, and is a Chartered Financial Analyst.

John T. (Jack) Cooney

President, Chief Executive Officer and Director

Mr. Cooney, age 73, joined Somero in December 1997 and has served as its Chief Executive since that time. He has been a director of the company since August 2005. Mr. Cooney has 33 years of experience in various senior management and sales and marketing positions. From 1995 to 1997, Mr. Cooney served as the chief executive officer of Advance Machine Company, a US\$145m industrial equipment manufacturer located in Minneapolis, Minnesota, USA. From 1990 to 1995, he was the vice president of sales and marketing, as well as the vice president of manufacturing, at Ganton Technologies, an aluminum die caster and precision machine business located in Wisconsin, USA. Mr. Cooney has an Associate's degree in Industrial Engineering from Central New England College and a Master of Business Administration degree from College of St. Thomas.

John Yuncza

Chief Financial Officer, Secretary and Director

Mr. Yuncza, age 49, joined Somero in May 2015 to serve as Chief Financial Officer. Mr. Yuncza has over 20 years of experience in various finance and senior management roles. Most recently, Mr. Yuncza served as Chief Financial Officer of Datamax-O'Neil, a subsidiary of Dover Corporation. Prior to his role at Datamax-O'Neil, Mr. Yuncza held a variety of senior financial roles at Pegasus Communications, Legg Mason Wood Walker, Fifth Third Bancorp in addition to serving as an Audit Manager at KPMG LLP. Mr. Yuncza earned a Bachelor of Science degree from St. Joseph's University in Philadelphia and an MBA from the Yale School of Management.

Howard E. Hohmann

Executive Vice President of Sales Worldwide, Director

Mr. Hohmann, age 58, joined Somero in 1997 and currently serves as Executive Vice President of Sales, Marketing and Customer Service Worldwide. Mr. Hohmann also developed and managed Somero's Field Support Team and was part of its Product Development Team. Mr. Hohmann brings nearly three decades of career expertise in the concrete industry, previously working as Founder, Owner & President of one of the eastern United States' largest and most successful concrete contractors, placing all aspects of concrete floors from coast to coast. Mr. Hohmann was also a concrete flooring consultant, teaching procedures, practices and designs, alongside the inventors of the Somero Laser Screed. Additionally, he has developed and managed sales in emerging markets, and managed both marketing and inside sales departments. Mr. Hohmann also served the U.S. Marine Corps.

Thomas M. Anderson

Non-Executive Director

Mr. Anderson, age 69, retired after 30 years of service as president and chief executive officer of Schwing America, Inc. to become the president and managing partner of Schwing BioSet, Inc. He also served as the managing partner of Concrete Pump Repair from 1989 to 2013. Mr. Anderson participated in compensation decisions for all three companies. He is also a partner in Engineered Chassis Systems, a specialty truck manufacturer. He spent 22 years on the board of directors of the American Concrete Pumping Association and five years as the president of the Concrete Pump Manufacturers Association. Mr. Anderson previously served on the board of directors of Somero Enterprises, Inc. from 1997 to 1999 prior to the sale of the Company to Dover Corporation. Along with his affiliation with Somero, Mr. Anderson stays active in the concrete industry with an investment in Southwest Concrete Pumping based in Colorado.

Robert Scheuer

Non-Executive Director

Mr. Scheuer, age 61, has served in a series of senior executive roles at Dover Corporation, an \$8 billion Fortune 500 company. Most recently, from 2011 to 2014, Mr. Scheuer was Chief Financial Officer and Vice President Finance of Dover Engineered Systems, a \$3.8 billion business segment of Dover Corporation. In this role, Mr. Scheuer provided strategic guidance to the 14 operating company CEOs/CFOs in the segment and directed over 140 global employees in FP&A, budgeting, forecasting, acquisitions, compliance, accounting and reporting. Prior to this role, from 2007 to 2011 Mr. Scheuer served as Chief Financial Officer and Vice President of Finance of Dover Industrial Products, a \$2.4 billion business segment of Dover Corporation and from 1998 to 2007 as Chief Financial Officer and Vice President of Finance of Dover Industries, a \$1.2 billion business segment of Dover Corporation. Prior to his tenure at Dover Corporation, from 1986 to 1998, Mr. Scheuer served in a variety of leadership roles at Kraft Foods, Inc., most recently as Controller of the Grocery Products Division, a \$1.7 billion multi-brand portfolio with 6 major product lines. Mr. Scheuer received a Bachelor of Science degree from DePaul University and an MBA from Northwestern University J.L. Kellogg School of Management.

Corporate governance report

The Board recognizes the value and importance of, and is committed to high standards of corporate governance, and all Directors are fully aware of their duties and responsibilities. In accordance with Rule 26 of the AIM Rules for Companies, the Company confirms that it has adopted and observes the QCA Corporate Governance Code (the "Code"). The Board considers that the Company complies with the requirements of the Code and continues to implement a robust governance structure to ensure continued compliance with the Code. The information below (in conjunction with our corporate governance disclosures that can be found on our website at www.somero.com) sets out those disclosures that the Company is required to include in its annual report as well as information relating to how the Company may deviate from the Code.

In accordance with Principal 1 of the Code the Company's business model and strategy, including key challenges in their execution and how these are addressed, are set out on pages 16-17 and 26-27 of this annual report.

Principle 2 requires that Somero seeks to understand and meet shareholder needs and expectations. The Directors are committed to maintaining good communications with the shareholders and quickly responding to all queries received. All shareholders will have at least 20 working days' notice of the AGM at which the majority of Directors are introduced and available for questions. Institutional investors and analysts are invited to briefings by Somero immediately after the announcement of Somero's interim and full year results and all shareholders are encouraged to participate in Somero's AGM. The Chairman is contactable at Somero's registered office, and all of the Directors are expected to attend the AGM.

Principle 3 requires that Somero take into account wider stakeholder and social responsibilities and their implications for long-term success. Investors and shareholders are invited to learn more about Somero's business and relationship strategies on pages 16-21 of this annual report. Somero strives to develop long-standing relationships with customers and shareholders alike; maintaining open lines of communication, availability to conduct site tours and a robust library of online content that demonstrates the unique value proposition of our products. For further information, please contact Somero at www.somero.com.

In accordance with Principal 4 of the Code the Board reviews the Company's strategic plans each year. On a regular basis, the Company's significant risks are updated and appropriate control strategies and accountabilities are agreed. The Board has set clear terms of reference for each of its committees and the Company has an organizational structure with clearly defined and documented delegation of authority to executive management and reporting systems for financial results, risk exposure and control assessment. The Company has a comprehensive system for reporting financial results to the Board. The Company is committed to competence and integrity of management and staff at all levels, through its values statement, comprehensive recruitment, training and appraisal programs. The Company has established controls and procedures over the security of data held on computer systems and has put in place suitable disaster recovery arrangements. A number of the Company's key functions, including treasury and taxation, are dealt with centrally. The Chief Financial Officer reports on an as needed basis to keep the Board updated. There is no dedicated resource for internal audit functions, which is considered sufficient for the Company due to its size. Day-to-day management of the Company's activities is delegated to senior management and is considered sufficient for the Company. The Board has overall responsibility for

identifying, evaluating and managing major business risks facing the Company. It annually reviews all operating unit assessments of business risk exposure and control, including compliance assessments, and determines appropriate action, taking into account the recommendations of senior management.

An ongoing review of the effectiveness of the system of internal control for the year ended December 31, 2019 has been maintained and has taken account of any material developments since the year end.

In accordance with Principal 5 of the Code the Board comprises six Directors, three of whom are Executive Directors and three of whom are Non-Executive Directors.

The Board regards the Non-Executive Chairman, Lawrence Horsch, and each of Thomas Anderson and Robert Scheuer as independent Non-Executive Directors. The Board recognizes that Mr. Horsch and Mr. Anderson each has served as an independent Non-Executive Director for more than nine years. Notwithstanding, having carefully considered the individual circumstances, the Board has determined that both Mr. Horsch and Mr. Anderson continue to be independent. This determination is reviewed on an ongoing basis and is based on a range of factors including the Board's determination that (i) neither Mr. Horsch nor Mr. Anderson are dependent on his compensation as a director of the Company and (ii) both Mr. Horsch and Mr. Anderson have the strength of character and integrity to remain unaffected by circumstances that, in theory, may compromise their independence.

All independent Non-Executive Directors are selected from outside the Company with due regard being given to their ability to contribute to the Board in light of knowledge, skills and experience required. The Board believes that the current composition is sufficient for the Company's current size (the Company is a smaller company) and the Board has been structured to ensure that an appropriate mix of skills and experience are in place to allow it to operate effectively and to support the development of the Company's strategy and long-term objectives. The composition of the Board will be regularly reviewed by the Nomination Committee to ensure this balance of skills, experience and knowledge is maintained.

The time commitment required from each Director is set out in his/her letter of appointment. The Nomination Committee is responsible for considering annually whether each Director is able to devote sufficient time to his/her duties. During the year, there were twelve regularly scheduled monthly Board meetings, two Audit Committee meetings, one Remuneration Committee meeting and one Nomination Committee meeting.

In accordance with Principal 6 of the Code, the Board's membership consists of the individuals whose credentials are outlined on page 28 of this report.

On joining the Board, new Directors will receive a comprehensive induction. It is expected that Directors will receive regular updates on legal, regulatory and governance issues.

In accordance with Principal 7 of the Code the Board periodically conducts a formal performance evaluation and considers the balance of skills, experience, independence and knowledge of the Company on the Board and its diversity, including gender, how the Board works as a unit, and other factors relevant to its effectiveness. The composition and functioning of the Board were reviewed and evaluated by the Nomination Committee in 2019 and it was determined the Board as constructed serves the Company's needs for proper governance.

Corporate governance report continued

In respect of compliance with Principal 8 of the Code, a critical aspect of the Company's strategy is to be perceived as a trusted partner of our customers. In order to achieve this objective, a culture of teamwork, openness, integrity and professionalism forms a key element of our company principles and values which sets out the standards of behavior we expect from all our employees. The Board supports and promotes the principles of equal opportunities in employment and promotes a culture where every employee is treated fairly, as discussed in the Chairman's statement on page 8 of this report. The Board and management conduct themselves ethically at all times and promote a culture in line with the standards set out in the employee hand book. Principal risks and uncertainties facing the business, as outlined on pages 26-27 of this report, are regularly monitored by the Board along with the processes in place to mitigate those risks.

Principle 9 requires Somero to maintain governance structures and processes that are fit for purpose and support good decision-making by the Board. Somero has a number of committees: the Audit Committee, the Remuneration Committee and the Nominations Committee. For further information on the individual roles of Board members or for information in respect of the roles of each committee, please refer to the additional information regarding Somero's Board of Directors on page 28 of this annual report, and the additional discussion regarding the committees to follow in this report. The Board is responsible for formulating, reviewing and approving the Group's strategy, budgets and corporate actions, and is collectively responsible for the long-term success of Somero. Certain matters are specifically reserved for decision by the Board and documented in a written schedule which will also be reviewed annually.

In accordance with Principal 10 of the Code the Company has a number of committees: the Audit Committee, the Remuneration Committee and the Nomination Committee.

The Audit Committee comprises of Messrs. Scheuer, Anderson and Horsch, and is chaired by Mr. Scheuer. The Audit Committee determines and examines any matters relating to the financial affairs of the Company, including the terms of engagement of the Company's auditors and, in consultation with the auditors, the scope of the audit. It receives and reviews reports from management and the Company's auditors relating to the interim and annual accounts and the accounting and internal control systems in use throughout the Company. In addition, it ensures that the financial performance, position and prospects of the Company are properly monitored and reported on. The Audit Committee has unrestricted access to the Company's auditors.

The following table summarizes audit, tax and other fees paid by the Company to its auditor and tax service provider in 2019 and 2018.

	Year ended December 31, 2019 US\$ 000	Year ended December 31, 2018 US\$ 000
Audit	178	173
Tax	227	91
Other	—	—

The Remuneration Committee comprises of Messrs. Anderson, Scheuer and Horsch, and is chaired by Mr. Anderson. The Remuneration Committee measures the performance of the Executive Directors and key members of senior management as a prelude to recommending their annual remuneration, bonus awards and awards of share options to the Board for final determination. The Remuneration Committee also makes recommendations to the Board concerning the allocation of share options to employees.

The Nomination Committee comprises of Messrs. Horsch, Anderson and Scheuer and is chaired by Mr. Horsch. The Nomination Committee regularly reviews the structure, size and composition (including the skills, knowledge and experience) required of the Board compared to its current position. It also makes recommendations to the Board with regard to any changes; gives full consideration to succession planning for Directors and other senior executives in the course of its work, taking into account the challenges and opportunities facing the Company, and what skills and expertise are therefore needed on the Board in the future. It is responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise. The Nomination Committee supports equal opportunities in employment and advancement and opposes all forms of unlawful or unfair discrimination on the grounds of color, race, religion, age, nationality, gender or marital status. Full and fair consideration is given to applications for employment from disabled people. All our benefits are accessible to every staff member and we encourage and support personal and professional development. In addition to the three permanent committees discussed above, in accordance with applicable law and best practice the Board establishes ad hoc committees from time to time to deal with discrete matters within the Board's remit in an efficient and effective manner.

Directors' remuneration report

The members of the Remuneration Committee at year-end were Thomas Anderson (Chairman), Robert Scheuer and Larry Horsch. The Remuneration Committee makes recommendations to the Board, within existing terms of reference, on remuneration policy and determines, on behalf of the Board, specific remuneration packages for each of the executive directors.

	Cash salary 2019	Salary paid in RSUs 2019	Bonus 2019 ⁽²⁾	Bonus paid in common shares 2019 ⁽³⁾	Salary 2020	Bonus opportunity 2020	Options held	Restricted stock units held
L Horsch	\$91,790	\$34,919 ⁽¹⁾	–	–	\$133,044	–	–	18,993
J Cooney	\$464,368	–	\$116,092	–	\$487,587	0%-100% ⁽⁴⁾	–	101,086
J Yuncza	\$299,246	–	\$74,811	\$41,551	\$314,209	0%-100% ^{(4),(6)}	–	70,917
H Hohmann	\$312,890	–	\$99,522	–	\$328,584	Commission ^{(5),(6)}	–	35,809
T Anderson	\$65,550	\$24,937 ⁽¹⁾	–	–	\$95,011	–	–	23,031
R Scheuer	\$74,500	\$15,987 ⁽¹⁾	–	–	\$95,011	–	–	7,560

Notes:

- Annual fee increases were paid to non-executive directors in the form of RSUs through 2019. The amounts reflected in 2019 include the fair value of RSUs issued to directors in 2019 representing the cumulative impact of fee increases through 2019. Beginning in 2020, the full Board fee is paid in cash.
- Bonus earned for 2019 determined based on Company performance with variable payouts along a sliding scale ranging from 0%-100%.
At year-end actual Company results were measured against established EBITDA targets approved by the Remuneration Committee.
- A portion of 2019 bonus was paid in common shares in lieu of cash under the Company's Equity Bonus Plan, as described in footnote 16.
- On-target bonus is 50% of base salary. Bonus determined solely by Company performance with variable payouts along a sliding scale ranging from 0%-100%.
At year-end actual Company results are to be measured against established revenue and cost targets approved by the Remuneration Committee.
- Commission is based on actual sales in comparison to established annual thresholds approved by the Remuneration Committee.
- At the discretion of the Remuneration Committee, up to 100% of annual bonus and commission amounts can be paid in the form of common shares.

Remuneration policy

The Company's policy is to provide executive remuneration packages which are designed to attract, motivate and retain directors of the high caliber required and to reward them for enhancing value to stockholders. The performance measurement of the executive directors and the determination of their annual remuneration package are undertaken by the Remuneration Committee consisting solely of non-executive directors. The non-executive directors receive RSUs in lieu of salary increases as determined by the full Board.

In framing remuneration policy, the Remuneration Committee has given consideration to the requirements of the Code.

Components of remuneration

The components of remuneration are:

- basic salary and benefits determined by the Remuneration Committee and reviewed annually;
- performance related bonuses having regard to profitability of the Company; and
- stock option and restricted stock unit incentives.

Basic salary

An executive director's basic salary is determined by the Remuneration Committee at the beginning of each year and when an individual changes position or responsibility. Base salaries and non-executive director fees are set out in the table above.

Cash compensation

In the year ended December 31, 2019, the executive directors earned bonuses as shown in the table above. Bonuses paid to the Company's CEO and CFO are determined entirely based on Company performance. Each year, Company performance targets are established and approved by the Remuneration Committee. At year end, actual results are compared to established targets and the bonus earned is determined along a sliding scale that could result in no payout up to a maximum capped at two times the target bonus. Historically, under this bonus program, annual Company performance was determined based on actual EBITDA compared to the annual established target as was the case in 2019. In 2020, the annual established targets approved by the Remuneration Committee include revenue and cost targets.

Directors' contracts

The Company has entered into employment agreements with executive directors and certain members of senior management. The terms of these agreements range from six to eighteen months and include non-compete and non-disclosure provisions as well as providing for defined severance payments in the event of termination or change in control. If any existing contract of employment is breached by the Company in the event of termination, the Company would be liable to pay, as damages, an amount approximating the net loss of salary and contractual benefits for the unexpired notice period. The Remuneration Committee will seek to ensure that the director fulfills obligations to mitigate losses and will also give consideration to phased payments where appropriate.

With the approval of the Remuneration Committee, executive directors are entitled, under their service agreements, to perform duties outside the Company and to receive fees for those duties.

Equity incentives

The Remuneration Committee approves the grant of equity awards to executive directors under the Company's discretionary equity incentive schemes. All equity awards issued by the Company in 2018 and 2019 are governed by Somero's 2010 Equity Incentive Plan (the "2010 Plan") that was adopted by the Remuneration Committee in 2010. The 2010 Plan made 5.6 million stock options available to be granted, which is 10% of the 56 million shares that were issued and outstanding. At that time, all other equity incentive plans were abandoned.

Directors' remuneration report continued

The equity awards issued to executive directors do not have any performance criteria attached to them. The Remuneration Committee has determined that aside from service period requirements, performance criteria were not appropriate for equity awards issued under the 2010 Plan. The Remuneration Committee has determined that equity awards are critical incentives necessary to attract, retain and reward key organizational talent including executive directors. The Remuneration Committee made this assessment in recognition that the Company's key employees, including its executive directors, are US-based and do not participate in defined benefit pension schemes more prevalent in other regions of the world.

The 2010 Plan expired on December 31, 2019 and was replaced by the 2020 Equity Incentive Plan (the "2020 Plan") that was adopted by the Board in December 2019. The 2020 Plan is also a 10-year Plan with terms consistent to the 2010 Plan, making up to 5.6 million of equity awards (stock options, restricted stock units or common shares) available to be granted over a 10-year period until 2030, which is 10% of the 56 million shares currently issued and outstanding.

For more information, see Note 15 within the Notes to the Financial Statements.

Restricted stock units

Annually, the Board approves restricted stock unit ("RSU") awards to executive and non-executive directors under the terms of its 2010 and 2020 Equity Incentive Plans. In 2019, Non-executive directors are awarded RSUs in lieu of annual director's fee increases, while certain executive directors are awarded RSUs as part of their annual incentive compensation plans. Awarded RSUs vest three years from the date of the grant and require continued employment for the period. In 2019, 151,121 RSUs were exercised or forfeited, 197,135 units issued, leaving a balance of 486,090 units as of December 31, 2019. For more information, see Note 15 within the Notes to the Financial Statements.

Stock options

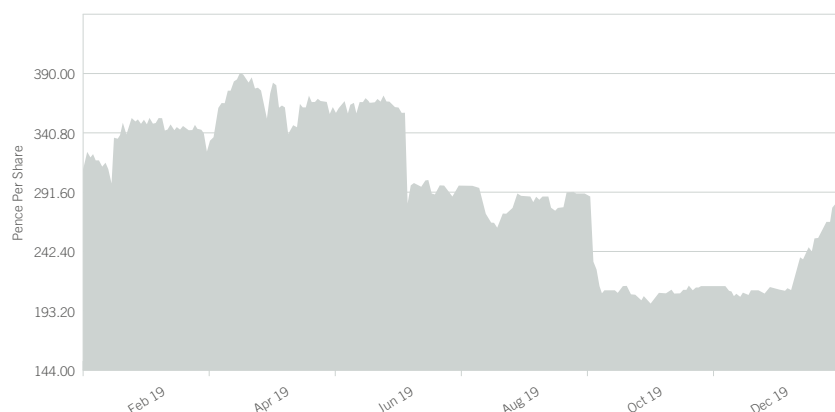
An initial grant was made in February 2010 for 2.3 million stock options as replacements for grants under the old option plan which was cancelled. The grants have a three-year vesting and a strike price of 30p, a 100% premium over the market price on the date of grant. The remaining options will only be issued for new key employees and superior performance. No options were outstanding as of December 31, 2019. For more information, see Note 15 within the Notes to the Financial Statements.

Directors and officers insurance

The Company maintains customary D&O insurance.

Performance graph

The market price of the shares at December 31, 2019 was 278.0p. The range during the 2019 period of trading was 185.0p to 390.0p.



The remuneration of the non-executive directors is determined by the Board within the limits set out in the Articles of Association, and is based upon independent surveys of fees paid to non-executive directors of similar companies. The remuneration paid to each non-executive director in the year to December 31, 2019 was subject to Board approval. The letters of appointment and terms are listed in the following chart.

Director	Class	Date of appointment	Termination date
J Yuncza	I	June 11, 2019	2022 AGM
R Scheuer	I	June 11, 2019	2022 AGM
L Horsch	II	June 6, 2017	2020 AGM
T Anderson	II	June 6, 2017	2020 AGM
J Cooney	III	June 12, 2018	2021 AGM
H Hohmann	III	June 12, 2018	2021 AGM

Approved by the Board of Directors and signed on behalf of the Board.

Thomas Anderson

Chairman of Remuneration Committee

March 11, 2020

Directors' report

The directors present their Annual Report and the audited financial statements for the year ended December 31, 2019.

Activities

The principal activity of the Company is to design, assemble and sell equipment that automates the process of spreading and leveling large volumes of concrete for flooring and other horizontal surfaces, as well as to provide education, training and support services for its customers throughout the world. Somero's Operations and Support Offices are located in Michigan, USA with Global Headquarters and Training Facilities in Florida, USA along with an established Sales, Service and Training Facility that is home to the Somero Concrete College in Shanghai, China. In addition, Somero maintains sales and service offices located in Chesterfield, UK and New Delhi, India.

Review of business

A fair review of the Company's progress for the period reported, its future prospects and a description of the principal risks and uncertainties facing the Company are set out in the Chairman's Statement, the Chief Executive's Statement, the Financial Review, the Directors' Report and the Corporate Governance Report.

The Directors' Report is prepared for the members of the Company and should not be relied upon by any other party for any other purpose. The Directors' Report (including the Chairman's Statement, the Chief Executive's Statement, the Financial Review and the Corporate Governance Report) contain certain forward-looking information and statements in relation to the Company's operations, economic performance and financial conditions. These statements are made by the directors in good faith based on the information available to them at the time of the approval of this report and, although they believe that the expectations reflected in such forward-looking statements are reasonable, they should be treated with caution due to their inherent uncertainties, including both economic and business risk factors underlying such forward-looking statements or information.

Results and dividends

The audited results for the year are set out in detail below. Dividends equal to US\$ 17.4m were paid in 2019. A 20.7 US cents per share dividend was declared for the period ending December 31, 2019, with a record date of April 14, 2020, payable on April 30, 2020.

Share capital

	Ordinary Shares	
	January 1, 2019	December 31, 2019
L Horsch	46,000	46,000
J Cooney	1,414,634	614,634
J Yuncza	84,169	99,811
H Hohmann	54,067	73,662
T Anderson	—	—
R Scheuer	25,000	25,000

Somero stock is traded on the LSE AIM exchange and is therefore quoted in Pounds Sterling. The market price of the shares at December 31, 2019 was 278.0p. The range during the 2019 period of trading was 185.0p to 428.0p.

Apart from the stockholdings listed below the Company has not been notified of any stockholdings which are 3% or more of the total issued ordinary shares of the Company.

Stockholders who hold more than 3% as of December 31, 2019

	Amount	% holding
Canaccord Genuity Group	5,172,778	9.18
Unicorn Asset Mgt	5,070,000	9.00
Close Brothers Group	3,922,321	6.96
Polar Capital	2,639,504	4.68
Affiliated Managers Group	3,728,805	6.62
Jupiter Asset Mgt	3,085,457	5.48
River & Mercantile Asset Mgt	2,156,142	3.83
Janus Henderson Investors	2,386,980	4.24
Hargreaves Lansdown Asset Mgmt	2,088,226	3.71
Lazard Freres Gestion	1,977,857	3.51
Aberdeen Standard Investments	1,521,731	2.70
BlackRock Investment Mgt	1,463,868	2.55

Directors' report continued

Director restricted stock units

Director	January 1, 2019	Award/ (Exercise)	Cancelled	December 31, 2019	Weighted average grant date fair market value (USD)	Vesting date	Fully vested date
L Horsch	8,395	(8,395)	—	—	—	—	—
L Horsch	6,681	—	—	6,681	3.46	3/17/2020	3/17/2020
L Horsch	5,469	—	—	5,469	5.28	3/16/2021	3/16/2021
L Horsch	—	6,843	—	6,843	5.10	3/14/2022	3/14/2022
H Hohmann	11,284	—	—	11,284	5.28	3/16/2021	3/16/2021
H Hohmann	—	24,525	—	24,525	5.10	3/14/2022	3/14/2022
J Cooney	60,049	(60,049)	—	—	—	—	—
J Cooney	38,312	—	—	38,312	3.46	3/17/2020	3/17/2020
J Cooney	26,377	—	—	26,377	5.28	3/16/2021	3/16/2021
J Cooney	—	36,397	—	36,397	5.10	3/14/2022	3/14/2022
T Anderson	5,995	(5,995)	—	—	—	—	—
T Anderson	4,771	—	—	4,771	3.46	3/17/2020	3/17/2020
T Anderson	13,373	—	—	13,373	5.28	3/16/2021	3/16/2021
T Anderson	—	4,887	—	4,887	5.10	3/14/2022	3/14/2022
J Yuncza	35,178	(35,178)	—	—	—	—	—
J Yuncza	22,444	—	—	22,444	3.46	3/17/2020	3/17/2020
J Yuncza	25,018	—	—	25,018	5.28	3/16/2021	3/16/2021
J Yuncza	—	23,455	—	23,455	5.10	3/14/2022	3/14/2022
B Scheuer	1,770	(1,770)	—	—	—	—	—
B Scheuer	2,204	—	—	2,204	3.46	3/17/2020	3/17/2020
B Scheuer	2,223	—	—	2,223	5.28	3/16/2021	3/16/2021
B Scheuer	—	3,133	—	3,133	5.10	3/14/2022	3/14/2022

Other financial arrangements

Quantitative and qualitative disclosure about market risk

The Company is exposed to market risk from changes in interest rates and foreign currency exchange rates because it may elect to fund its operations through long- and short-term borrowings and it receives revenues and incurs expenses in a variety of foreign currencies. The Company does not currently hedge against the risk of exchange rate fluctuations. A summary of the Company's primary market risk exposures follows.

Foreign currency risk

The Company's foreign sales and results of operations are subject to the impact of foreign currency fluctuations because it receives revenues and incurs expenses in a variety of foreign currencies.

However, the vast majority of products and services are priced in US dollars to significantly reduce the exposure to foreign currency risk.

Payments to creditors

The Company's policy is to set payment terms when agreeing the terms of each transaction. It is the Company's general policy to pay suppliers according to the set terms, to ensure suppliers are informed of the terms of payment and to abide by these terms whenever possible.

Corporate social responsibility

Somero Enterprises believes, as a good corporate citizen, it must care about the communities it is involved in, keep the environment healthy, provide a safe and rewarding place to work and behave ethically in all its business dealings.

Donations

During the year, the Company made no political donations. Charitable donations were made in the amount of US\$ 55,022 for 2019.

Employment policies

The Company supports equal opportunities in employment and advancement and opposes all forms of unlawful or unfair discrimination on the grounds of color, race, religion, age, nationality, gender or marital status. Full and fair consideration is given to applications for employment from disabled people. As an Equal Opportunity Employer, all our benefits are accessible to every staff member, and we encourage and support personal and professional development.

The Company has well established structures to communicate with employees at every level and to encourage their involvement regarding the Company's performance and future activities. As an organization, Somero Enterprises, Inc. prides itself on its honesty, integrity and high professional standards to deliver its services to its customers and in dealing with its staff and the public. It also demands the maintenance of these high standards in everything that it does. To this end, the Company has devised this policy and procedure in order to give encouragement and support to employees in coming forward and reporting certain types of conduct or activities that fall short of these high standards.

Under the Public Interest Disclosure Act 1998, employees who report wrongdoing of certain kinds have specific protection. The Company aims to ensure that by adherence to this policy and through proper use of the procedure, as far as possible, any such report shall be made internally in the first instance by making it possible for all employees to approach an appropriate person within the Company in order to draw their concerns to the attention of someone who has authority to act. This policy and procedure is aimed at ensuring that any employee who wishes to voice a concern regarding potential or actual wrongdoing on the part of the Company or anyone with whom the Company is associated feels sufficiently comfortable to do so.

Director training

The directors have continued to receive formal AIM compliance training from the initial listing on the AIM to the present date.

Health and safety

The Board considers health and safety a key priority and believes it essential to conduct business to ensure the health, safety and welfare of all our employees and all other persons who may be affected by our activities. This includes members of the public, customers and trade contractors we may employ. We maintain ISO 9001 certification for quality.

Environment

It is our intention to take all reasonable measures to conduct our business activities so that damage to the environment and pollution is minimized.

John Yuncza

Company Secretary
March 11, 2020

Report of the independent auditors

To the Board of Directors and Stockholders of Somero Enterprises, Inc.

We have audited the accompanying consolidated financial statements of Somero Enterprises, Inc., a Delaware corporation, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America ("GAAP"); this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Somero Enterprises, Inc. as of December 31, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in conformity with GAAP.



Whitley Penn LLP

Plano, Texas
March 11, 2020

Consolidated balance sheets

As of December 31, 2019 and 2018

	As of December 31,	
	2019 US\$ 000	2018 US\$ 000
Assets		
Current assets:		
Cash and cash equivalents	23,757	28,233
Accounts receivable – net	11,979	10,231
Inventories – net	12,289	10,813
Prepaid expenses and other assets	1,291	1,501
Total current assets	49,316	50,778
Accounts receivable, non-current – net	904	346
Property, plant and equipment – net	13,714	12,001
Financing lease right-of-use assets – net	557	–
Operating lease right-of-use assets – net	1,213	–
Intangible assets – net	1,698	–
Goodwill	3,303	2,878
Deferred tax asset	564	850
Other assets	261	226
Total assets	71,530	67,079
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	2,227	2,146
Accrued expenses	5,960	6,391
Financing lease liability – current	148	–
Operating lease liability – current	247	–
Income tax payable	1,078	3,012
Total current liabilities	9,660	11,549
Financing lease liability – long-term	262	–
Operating lease liability – long-term	982	–
Other liabilities	1,587	430
Total liabilities	12,491	11,979
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 56,348,068 and 56,288,329 shares outstanding at December 31, 2019 and 2018, respectively	26	26
Less: treasury stock, 77,530 shares as of December 31, 2019 and 137,269 shares as of December 31, 2018 at cost	(191)	(326)
Additional paid in capital	17,001	16,969
Retained earnings	44,923	41,255
Other comprehensive loss	(2,720)	(2,824)
Total stockholders' equity	59,039	55,100
Total liabilities and stockholders' equity	71,530	67,079

See Notes to consolidated financial statements.

Consolidated statement of comprehensive income

For the years ended December 31, 2019 and 2018

	Year ended December 31,	
	2019 US\$ 000 except per share data	2018 US\$ 000 except per share data
Revenue	89,306	94,001
Cost of sales	38,602	40,375
Gross profit	50,704	53,626
Operating expenses		
Sales, marketing and customer support	11,108	11,059
Engineering and product development	1,796	1,357
General and administrative	11,198	12,037
Total operating expenses	24,102	24,453
Operating income	26,602	29,173
Other income (expense)		
Interest expense	(42)	(54)
Interest income	241	188
Foreign exchange impact	(71)	(42)
Other	310	(191)
Income before income taxes	27,040	29,074
Provision for income taxes	5,929	7,531
Net income	21,111	21,543
Other comprehensive income		
Cumulative translation adjustment	104	(895)
Comprehensive income	21,215	20,648
Earnings per common share		
Earnings per share – basic	0.37	0.38
Earnings per share – diluted	0.37	0.38
Weighted average number of common shares outstanding		
Basic	56,330,400	56,276,778
Diluted	56,819,618	56,728,351

See Notes to consolidated financial statements.

Consolidated statements of changes in stockholders' equity

For the years ended December 31, 2019 and 2018

	Common Stock			Treasury Stock		Retained earnings US\$ 000	Other Comprehensive income (loss) US\$ 000	Total Stockholders' equity US\$ 000
	Shares	Amount US\$ 000	Additional paid-in capital US\$ 000	Shares	Amount US\$ 000			
Balance – January 1, 2018	56,425,598	26	17,169	183,477	(407)	32,007	(1,929)	46,866
Cumulative translation adjustment	–	–	–	–	–	–	(895)	(895)
Net income	–	–	–	–	–	21,543	–	21,543
Stock-based compensation	–	–	489	–	–	–	–	489
Dividend	–	–	–	–	–	(12,295)	–	(12,295)
Treasury stock	–	–	(81)	(46,208)	81	–	–	–
RSUs settled for cash	–	–	(525)	–	–	–	–	(525)
Stock options settled for cash	–	–	(83)	–	–	–	–	(83)
Balance – December 31, 2018	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

See Notes to consolidated financial statements.

Consolidated statements of cash flows

For the years ended December 31, 2019 and 2018

	Year ended December 31,	
	2019 US\$ 000	2018 US\$ 000
Cash flows from operating activities:		
Net income	21,111	21,543
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred taxes	286	748
Depreciation and amortization	1,122	1,175
Non-cash lease expense	230	–
Bad debt	188	150
Stock-based compensation	760	489
Gain on non-cash payment for intangible asset	(171)	–
Loss on disposal of property and equipment	16	114
Working capital changes:		
Accounts receivable	(2,494)	353
Inventories	(1,374)	(2,116)
Prepaid expenses and other assets	210	1,039
Other assets	(35)	41
Accounts payable, accrued expenses and other liabilities	936	(963)
Income taxes payable	(1,934)	1,271
Net cash provided by operating activities	18,851	23,844
Cash flows from investing activities:		
Proceeds from sale of property and equipment	–	47
Property and equipment purchases	(3,015)	(803)
Payments for intangible assets	(138)	–
Business acquisition, net of cash acquired	(2,073)	–
Net cash used in investing activities	(5,226)	(756)
Cash flows from financing activities:		
Payment of dividend	(17,443)	(12,295)
RSUs settled for cash	(593)	(525)
Stock options settled for cash	–	(83)
Payments under capital leases	(169)	(95)
Net cash used in financing activities	(18,205)	(12,998)
Effect of exchange rates on cash and cash equivalents	104	(895)
Net increase (decrease) in cash and cash equivalents	(4,476)	9,195
Cash and cash equivalents:		
Beginning of year	28,233	19,038
End of year	23,757	28,233

See Notes to consolidated financial statements.

Notes to the consolidated financial statements

As of December 31, 2019 and 2018

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; and New Delhi, India.

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. Certain prior year amounts have been reclassified to conform to the current year presentation.

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, 2019 and 2018, the allowance for doubtful accounts was approximately US\$ 961,000 and US\$ 785,000, respectively. Bad debt expense was US\$ 188,000 and US\$ 150,000 in 2019 and 2018, 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, 2019 and 2018, the provision for obsolete and slow moving inventory was US\$ 346,000 and US\$ 343,000, 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, 2019 nor December 31, 2018.

Revenue recognition

The Company adopted ASC 606 “Revenue from contracts with customers” on January 1, 2018. The new revenue recognition standard requires revenue recognition based on a five-step model that includes: identifying the contract, identifying the performance obligations, determining the transaction price, allocating the transaction price, and recognizing the revenue. The standard results in the recognition of revenue depicting the transfer of promised goods or services to customers in an amount reflecting the expected consideration to be received from the customer for such goods and services, based on the satisfaction of performance obligations, occurring when the control of the goods or services transfer to the customer. The Company’s contracts and customer orders originate with fixed determinable unit prices for each deliverable quantity of goods defined by the customer order line item (performance obligation) and include the specific due date for the transfer of control and title of each of those deliverables to the customer at pre-established payment terms. We have elected to account for shipping and handling costs as fulfillment costs after the customer obtains control of the goods.

Notes to the consolidated financial statements continued

As of December 31, 2019 and 2018

2. Summary of significant accounting policies continued

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.

The change in accounting principle from ASC 605 to ASC 606 did not materially impact the amount of revenue recognized in the Company's financial statements.

Prior to the adoption of this standard the Company recognized revenue in accordance with ASC 605-10, "Revenue Recognition in Financial Statements". Revenue was recognized when persuasive evidence of an arrangement existed, delivery or service had occurred, the sale price was fixed or determinable and receipt of payment was probable.

The Company believes its previous recognition policy as related to the sale of equipment and training is consistent with the new revenue recognition standard defined within FASB ASC 606 which requires unique performance obligations be recognized upon satisfaction of the performance obligation at the point in time when the control of goods is transferred to the customer (sale of equipment) or services are performed (training).

During the year ended December 31, 2019 there was US\$ 652,000 of revenue recognized during the period from customer deposit liabilities (deferred contract revenue).

As of December 31, 2019 there are US\$ 596,000 in customer deposit liabilities for advance payments received during the period for contracts expected to ship in 2020. As of the year ended December 31, 2019 and 2018, 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, 2018	(551)
Warranty charges	475
Accruals	(537)
Balance, December 31, 2018	(613)
Balance, January 1, 2019	(613)
Warranty charges	416
Accruals	(734)
Balance, December 31, 2019	(931)

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\$ 760,000 and US\$ 489,000 for the years ended December 31, 2019 and 2018, respectively. The Company settled US\$ 0 and US\$ 83,000 in stock options for cash during the years ended December 31, 2019 and 2018, respectively. In addition, the Company settled US\$ 593,000 and US\$ 525,000 in restricted stock units for cash and conversion to common shares during the years ended December 31, 2019 and 2018, 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,	
	2019 US\$ 000	2018 US\$ 000
Income available to stockholders	21,111	21,543
Basic weighted shares outstanding	56,330,400	56,276,778
Net dilutive effect of stock options and restricted stock units	489,218	451,573
Diluted weighted average shares outstanding	56,819,618	56,728,351

Notes to the consolidated financial statements continued

As of December 31, 2019 and 2018

2. Summary of significant accounting policies continued

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 US\$ 000	Significant other observable inputs Level 2 US\$ 000	Significant other unobservable inputs Level 3 US\$ 000
Year ended December 31, 2018			
Asset:			
Non-recurring Goodwill	2,878		2,878
Year ended December 31, 2019			
Asset:			
Non-recurring Goodwill	3,303		3,303

New accounting pronouncements

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"), which supersedes nearly all existing revenue recognition guidance under US GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five-step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than were required under previous US GAAP. The standard is effective for annual periods beginning after December 15, 2017, and interim periods therein, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). The Company adopted the new standard using the full retrospective approach.

In February 2016, the FASB released Accounting Standard Update 2016-02, Leases. The new guidance requires lessees to recognize lease assets and lease liabilities on the balance sheet for those leases classified as operating leases under previous GAAP. Lessees are required to recognize a single lease cost, amortized on a straight-line basis over the lease term for operating leases. All cash payments are to be classified as operating activities on the cash flow statement. The update is effective for fiscal years beginning after December 15, 2018, and interim periods therein. The Company has implemented the new guidance under ASC 842, using the Targeted Improvements, ASU 2018-11, as of January 1, 2019.

3. Inventories

Inventories consisted of the following at December 31, 2019 and 2018:

	Year ended December 31,	
	2019 US\$ 000	2018 US\$ 000
Raw material	4,267	3,634
Finished goods and work in process	3,154	3,617
Remanufactured	4,868	3,562
Total	12,289	10,813

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, 2019, 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, 2019 and 2018, and that the value of patents was not impaired as of December 31, 2019.

The following table reflects other intangible assets:

		Weighted average Amortization Period	Year ended December 31,	
			2019 US\$ 000	2018 US\$ 000
<i>Capitalized cost</i>	Patents	12 years	19,247	18,538
	Intangible Assets		7,434	6,300
			26,681	24,838
<i>Accumulated amortization</i>	Patents	12 years	18,578	18,538
	Intangible Assets		6,405	6,300
			24,983	24,838
<i>Net carrying costs</i>	Patents	12 years	669	–
	Intangible Assets		1,029	–
			1,698	–

Amortization expense associated with the intangible assets in each of the years ended December 31, 2019 and 2018 was approximately US\$ 145,000 and US\$ 0, respectively. Net intangible assets were fully amortized in 2018.

Notes to the consolidated financial statements continued

As of December 31, 2019 and 2018

6. Property, plant, and equipment

Property, plant, and equipment consist of the following at December 31:

	Year ended December 31,	
	2019 US\$ 000	2018 US\$ 000
Land	864	864
Building and improvements	13,149	11,128
Machinery and equipment	5,414	5,022
	19,427	17,014
Less: accumulated depreciation and amortization	(5,713)	(5,013)
	13,714	12,001

Depreciation expense for the years ended December 31, 2019 and 2018 was approximately US\$ 977,000 and US\$ 1,175,000, respectively.

7. Line of credit and note payable

In February 2016, the Company entered into an amended credit facility which consists of a US\$ 10.0m secured revolving line of credit that will mature in February 2021. The interest rate on the revolving credit line 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 credit line in the years ended December 31, 2019 or in 2018.

Interest expense for the years ended December 31, 2019 and 2018 was approximately US\$ 42,000 and US\$ 54,000, 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\$ 690,000 to the savings and retirement plan during 2019 and contributed US\$ 591,000 during 2018.

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 13 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, 2019:

	US\$ 000
Operating lease cost	301
Finance lease cost:	
Amortization of right-of-use assets	230
Interest on lease liabilities	15
Total finance lease cost	245

As of December 31, 2019, the weighted average discount rate was 4.7% and 4.4%, respectively, and the weighted average remaining lease term for finance and operating leases was 3.0 years and 10.5 years, respectively. Maturities of lease liabilities are as follows for the years ended:

	Operating Leases US\$ 000	Finance Leases US\$ 000
2020	303	166
2021	157	142
2022	105	90
2023	100	40
2024	100	–
Thereafter	801	–
Total	1,566	438
Less imputed interest	(337)	(28)
Total	1,229	410

10. Supplemental cash flow and non-cash financing disclosures

	Year ended December 31,	
	2019 US\$ 000	2018 US\$ 000
Cash paid for interest	41	34
Cash paid for taxes	6,315	6,013
Finance lease liabilities arising from obtaining right-of-use assets	245	22
Operating lease liabilities arising from obtaining right-of-use assets	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, 2019 and 2018, the Company had three customers which represented 22% and two customers which represented 23% 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,	
	2019 US\$ 000	2018 US\$ 000
Current Income Tax		
Federal	4,431	5,194
State	823	844
Foreign	389	745
Total current income tax expense	5,643	6,783
Deferred tax expense		
Federal	256	632
State	30	11
Foreign	–	105
Total deferred tax expense	286	748
Total tax provision	5,929	7,531

Notes to the consolidated financial statements continued

As of December 31, 2019 and 2018

13. Income taxes continued

As of December 31, 2019 and 2018, the effects of temporary differences that give rise to the deferred tax assets are as follows:

	Year ended December 31,	
	2019 US\$ 000	2018 US\$ 000
Deferred tax assets		
Bad debt allowance	220	185
Inventory	288	251
Accrued expenses	378	242
Intangible assets	–	485
UK intangibles	105	105
Stock compensation	279	178
Italy – NOL	189	129
Other	202	147
Total deferred tax assets	1,661	1,722
Deferred tax liabilities		
Prepaid insurance	(109)	(124)
Fixed assets	(607)	(619)
Intangible assets	(191)	–
Total deferred tax liabilities	(907)	(743)
Valuation allowance	(190)	(129)
Total net deferred tax asset	564	850

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,	
	2019 US\$ 000	2018 US\$ 000
Consolidated income before tax	27,040	29,074
Statutory rate	21%	21%
Statutory tax expense	5,678	6,105
State taxes	681	677
Foreign taxes	(48)	(115)
Permanent differences due to share-based compensation	(70)	(87)
Permanent differences due to other items	(11)	112
Foreign derived intangible income	(458)	(471)
Tax credits	–	(19)
Change in valuation allowance	60	129
Change in reserve	108	193
Out of period adjustment	–	860
Other	(11)	147
Tax expense	5,929	7,531

As of December 31, 2019, the Company has US\$ 786,000 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, 2019, 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, 2018	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, 2018	958
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

The amount of unrecognized tax benefits as of December 31, 2019, 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\$ 108,000 and US\$ 263,000 as of December 31, 2019 and 2018, respectively. Interest and penalties related to unrecognized tax benefits are included in 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:

	2019 US\$ 000	2018 US\$ 000
United States and U.S. possessions	65,534	64,661
Rest of World	23,772	29,340
Total	89,306	94,001

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\$ 760,000 and US\$ 489,000 for the years ended December 31, 2019 and 2018, respectively. The income tax effect recognized for stock-based compensation was US\$ 0.1m and US\$ 0.1m, respectively, for the years ended December 31, 2019 and 2018.

Stock options

An initial grant was made in February 2010 for 2.3 million stock options as replacements for grants under the old option plan, which was cancelled when the old plan was abandoned. The grants have a three-year vesting and a strike price of 30p, a 100% premium over the market price on the date of grant. The remaining stock options will only be issued for new key employees and superior performance. Options granted under the Plan have a term of up to ten years and generally vest over a three-year period beginning on the date of the grant. Options under the Plan must be granted at a price not less than the fair market value at the date of grant. The fair value of each option award is estimated on the date of grant using the Black-Scholes-Merton option pricing model. The risk-free interest rate is based on the U.S. Treasury rate for the expected term at the time of grant, volatility is based on the average long-term implied volatilities of peer companies as our Company has limited trading history and the expected life is based on the average of the life of the options of ten years and an average vesting period of three years. No new options were granted in 2019 and 2018. A summary of options activity is presented below:

Notes to the consolidated financial statements continued

As of December 31, 2019 and 2018

15. Stock-based compensation continued

Options	Stock options	Weighted average exercise price	Weighted average remaining contractual term (years)	Aggregate intrinsic value
Outstanding at January 1, 2018	17,140	0.47	2.13	61,195
Granted	–	–	–	–
Exercised	(17,140)	0.47	1.13	(61,195)
Forfeited	–	–	–	–
Outstanding at December 31, 2018	–	–	–	–
Exercisable at December 31, 2018	–	–	–	–

Options	Stock options	Weighted average exercise price	Weighted average remaining contractual term (years)	Aggregate intrinsic value
Outstanding at January 1, 2019	–	–	–	–
Granted	–	–	–	–
Exercised	–	–	–	–
Forfeited	–	–	–	–
Outstanding at December 31, 2019	–	–	–	–
Exercisable at December 31, 2019	–	–	–	–

No options were exercised in 2019, and options exercised in 2018 were settled for cash of US\$ 0.1m. As of December 31, 2019 and 2018, the Company's stock options have all been vested with no unrecognized compensation cost related to non-vested stock-based compensation arrangements granted under the Company's stock option plan.

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 2019 and 2018 is presented below:

	Shares	Grant date fair market value US\$
Outstanding at January 1, 2018	386,972	963,505
Granted	200,971	1,062,130
Vested or settled for cash	(117,316)	(230,371)
Forfeited	(30,151)	(129,878)
Outstanding at December 31, 2018	440,476	1,665,386
Outstanding at January 1, 2019	440,476	1,665,386
Granted	197,135	994,392
Vested and settled for cash	(148,581)	(332,194)
Forfeited	(2,940)	(15,000)
Outstanding at December 31, 2019	486,090	2,312,584

RSUs settled for cash were US\$ 0.6m in 2019 and US\$ 0.5m in 2018.

As of December 31, 2019, there was US\$ 1,130,000 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 1.41 years.

16. Employee compensation

The Board approved management bonuses and profit-sharing payments totaling US\$ 0.8m to be paid in December 2019 and early 2020 based upon the Company meeting certain profitability 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 2019, the Company issued 39,373 shares of common stock, valued at US\$ 201,000 at the time of grant. In March 2018, the Company issued 34,157 shares of common stock, valued at US\$ 180,000 at the time of grant.

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 an increase to the dividend payout ratio to 50% of adjusted net income and is pleased to announce a final 2019 dividend of 13.0 US cents per share that will be payable on April 30, 2020 to shareholders on the register at April 14, 2020. Together with the interim dividend paid in October 2019 of 5.75 US cents per share, this represents a full year regular dividend to shareholders of 18.75 US cents per share. In addition, due to the strength of the Company's cash position at the end of 2019, and upon the review of anticipated future cash requirements for the business, the Board of Directors' has adopted a new supplementary dividend policy and approved a supplemental dividend of 7.7 US cents per share that will be paid together with the final 2019 dividend on April 30, 2020 to shareholders on the register at April 14, 2020. The combined dividend payment on April 30, 2020 will total 20.7 US cents per share, representing a total dividend payment of US\$ 11.7m.

All future dividends, including both ordinary and supplemental, now have the option of being paid in two currencies, GBP and USD. In addition, there is also the option of being paid by Check or through Crest for either currency and additionally via BACS for GBP payments. If no election is made, dividends will be paid in USD and via Check. If 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>

Distribution amount:	\$0.207 cents per share
Ex-dividend date:	09 April 2020
Dividend record date:	14 April 2020
Final day for currency election:	15 April 2020
Payment date:	30 April 2020

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.

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 2020, the Board approved the 2019 Equity Bonus Plan, under which eligible senior managers can elect to receive up to 50% of their 2019 annual performance bonus in shares of common stock. The Company expects to issue shares for awards under the 2019 Equity Bonus Plan in 2020.

Share buyback

In February 2020, 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 2020.

Adoption of QCA

The Board has approved the adoption of the Quoted Companies Alliance Corporate Governance Code (the "QCA Code") in substitution for the UK Corporate Governance Code 2018. The Board intends that the adoption of the QCA Code shall be effective from 15 April 2020, in conjunction with the release of its Annual Report. The Board considers the adoption of the QCA Code appropriate for companies of similar sizes to Somero and for companies who are listed on AIM and believes that its adoption is for the benefit of the Company and its shareholders.

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 9, 2020 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 13, 2020 will be entitled to receive notice of, and vote at, the AGM.

Notes



Registered and Head Office

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USA

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