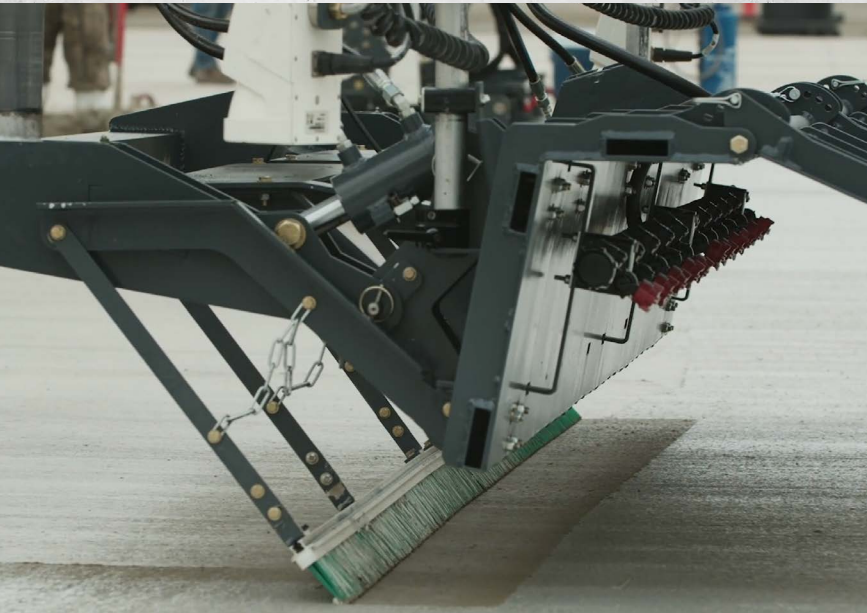




PROVIDING A PLATFORM FOR SUCCESS.

WE ARE THE

LEADERS IN LEVELING



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

Our innovative technology allows contractors to complete every concrete floor installation faster, flatter and with fewer people, **resulting in a platform for our customers to build successful, more profitable businesses.**

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HIGHLIGHTS

OUR PERFORMANCE

Financial

Revenue

US\$ 88.6m

-1%

Adjusted EBITDA^(1,2)

US\$ 26.1m

-9%

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

US\$ 0.33

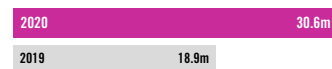
-11%



Cash flow from operations

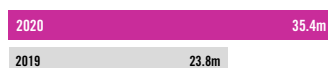
US\$ 30.6m

+62%

Net cash⁽⁴⁾

US\$ 35.4m

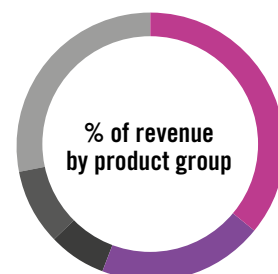
+49%



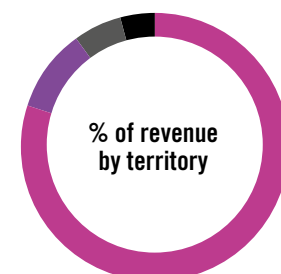
Ordinary dividend per share

US\$ 0.1681

-10%



Boomed screeds	36%	3-D Profiler System	09%
Ride-on screeds	20%	Remanufactured machines	07%
Other	28%		



North America	80%	China	04%
Europe	10%	Rest of World	06%

Operational

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

Post-period

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

Notes:

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

AT A GLANCE

WHO WE ARE

We work hard to deliver world-class products and services because we're passionate about our customers' success and we strive to ensure our customers achieve their business and profitability goals.

VISION

Somero's vision is for our innovative, cutting-edge technology and processes to be in use wherever a ready-mix truck is discharging concrete for a horizontal concrete slab.

VALUES

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:

1. A commitment to teaching and learning
2. An ability to solve problems in creative ways
3. Being accountable and taking ownership
4. Operating with a sense of urgency
5. Proactive honest communication
6. Embracing and driving change
7. Expressing our passion through amazing service
8. Having fun

CULTURE

At Somero, we are always striving to be great ... providing great equipment and service for our customers and creating a great place to work for our employees.

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:

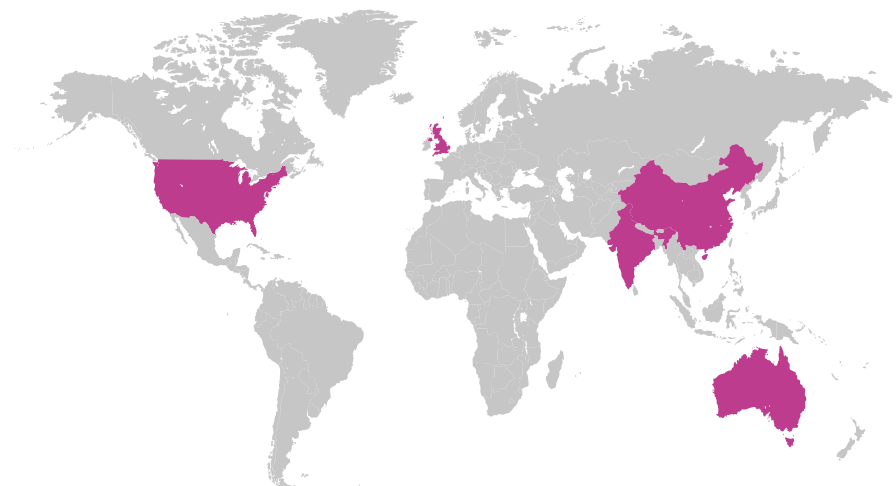
Sales and service office

China, Shanghai:

Sales, service and Somero Concrete College training facility

Australia, Melbourne:

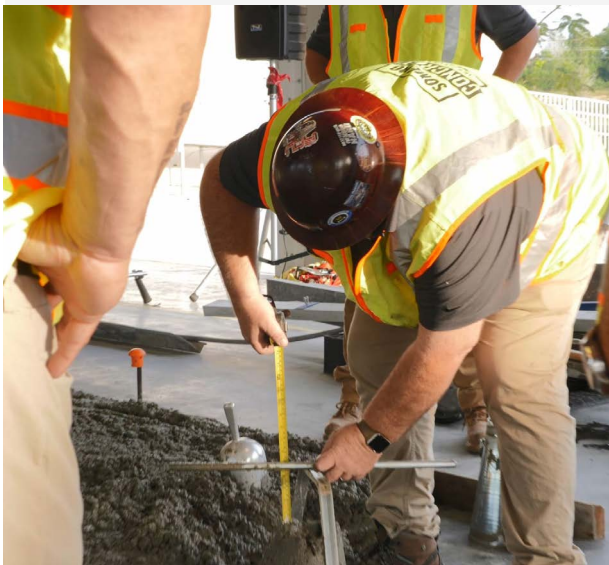
Sales and service office



OUR PRODUCTS

Somero products are 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 17 products. Our proprietary designs are protected by 87 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.



PRODUCT INNOVATION

BROOM + CURE™

PROBLEMS

CURED



CONSISTENT
COVERAGE AND
CURING EVERY TIME



↑ Broom + Cure™ in action

INTRODUCING OUR LATEST INNOVATION

Somero's Broom + Cure™ provides an efficient alternative to manual application in the broom and cure process.

The Somero Broom + Cure™ uses a proprietary 14' broom and spray bar head to deliver smooth and consistent application of curing agents and texture to exterior concrete slabs in accordance with American Concrete Institute standards. The design also offers space for 55 gallon drums allowing for integrated materials handling to keep spraying consistent with easy refills.

CHAIRMAN'S STATEMENT

INVESTING IN GROWTH

INTRODUCTION

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

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

PERFORMANCE AND DIVIDEND

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

Our strong balance sheet provides us with the flexibility to make investments to develop new products and add resources to sell and support these products in new and existing markets. These investments underpin the long-term success of our business, and we are pleased to be in a position to make them while maintaining a disciplined return of cash to shareholders.

In 2020, we paid US\$ 13.9m in dividends and completed the US\$ 1.0m share repurchase program that began on September 9, 2020. I am pleased to report that based on the confidence in the business outlook, the Board has approved a final 2020 ordinary dividend of 12.81 US cents per share and a supplemental dividend of 18.1 US cents per share, which on a combined basis represents a US\$ 17.3m payment to shareholders. Both amounts are payable on April 30, 2021 to shareholders of record on April 9, 2021. Together with the interim dividend paid in October 2020 of 4.00 US cents per share, the 2020 full-year ordinary dividend is 16.81 US cents per share.

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

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

STRATEGIC PROGRESS

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

Somero has a significant long-term growth opportunity in regions outside our main North American market. We maintain a solid presence outside the US, with resources positioned across the globe that continue to work to penetrate international markets with new and existing products.

INVESTMENT CASE

OUR CORE STRENGTHS

Our performance in 2020 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.

While 2020 revenues outside North America declined to 20% of total sales compared to 27% in 2019, due in part to more severe COVID-19 restrictions in these regions than were put in place in the US, we continue to see generally positive non-residential construction market conditions outside the US and anticipate meaningful future contributions from new products in our non-US markets. We continue to promote wide-placement theory and quality concrete flooring standards globally which, along with introductions of new products, we anticipate will drive deeper penetration of our international markets.

OUTLOOK

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

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

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

Larry Horsch

Non-Executive Chairman
March 10, 2021

01 Industry leader in introducing customer driven, technologically advanced new products

02 Dominant market position

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

04 Skilled management team with extensive industry experience

05 Attractive global 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

**PRESIDENT AND CHIEF
EXECUTIVE OFFICER'S REVIEW**

PROVIDING SOLUTIONS FOR OUR CUSTOMERS

We ended 2020 with the strongest cash position in Company history, well positioned to make investments that will drive long-term growth in new and existing markets.

OVERVIEW

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

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

REGION REVIEWS

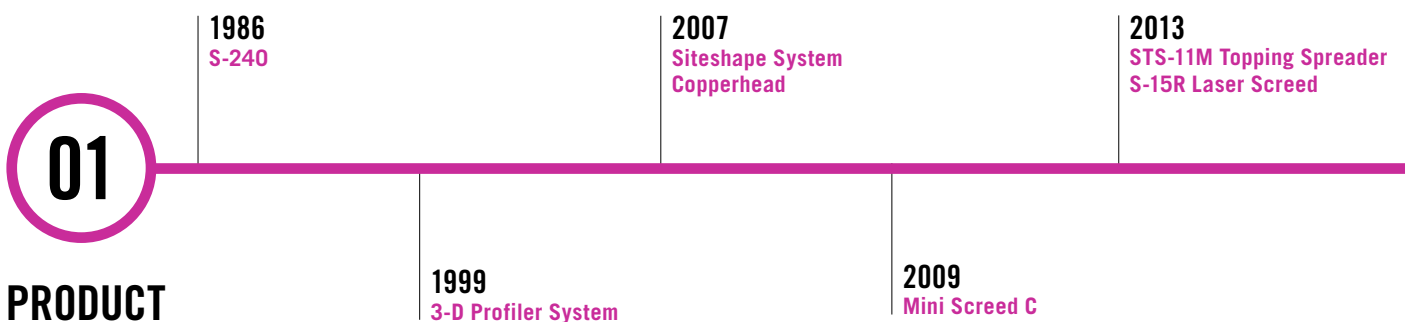
While full-year revenues in only one of the Company's six regions grew compared to 2019, H2 2020 revenues from each of the six regions grew compared to H1 2020, highlighting heightened momentum across all our markets to finish the year.

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

In Europe, while H2 2020 sales improved to US\$ 4.6m compared to US\$ 4.1m in H1 2020, full-year 2020 sales declined to US\$ 8.7m compared to US\$ 10.0m in 2019. Europe, as with all our non-US

Somero's journey

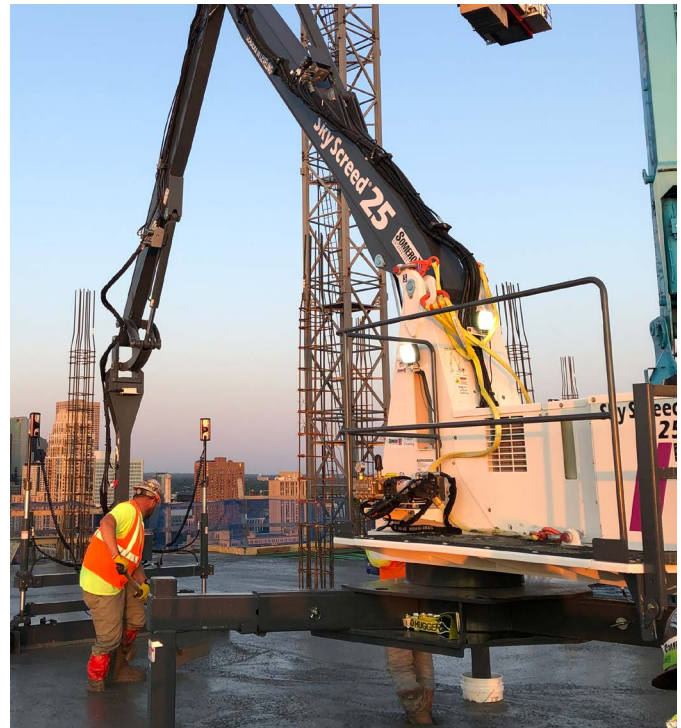
Somero started as a single product company in 1986 and has grown its portfolio to 17 products over 30 years; significantly expanding our addressable market. We are always looking for ways to improve the construction industry and what we can provide.



regions, was subject to stricter COVID-19 lockdown restrictions than those put in place in the US. The resulting interruptions and uncertainty adversely impacted customer equipment purchasing decisions. On a positive note, our European customers have continued to report solid project workloads and supported by this customer level view, our outlook for Europe is positive entering 2021 though tempered somewhat in comparison to our view of the US market. We are pleased with the broad based contribution to sales across the region, having sold equipment to 13 countries in 2020, with the most significant contributors being Italy, the UK, Portugal, Poland, Hungary, and Spain.

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

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



2015
S-10A Laser Screed
Floor Levelness System

2019
Somero®
Line Dragon®
SkyScreed® 25

2014
S-485 Laser Screed
S-22EZ Advanced Laser Screed

2016
S-158c
S-940 Laser Screed

2020
SkyScreed® 36
SRS-4 Laser Screed
Somero Broom + Cure™

17

PRODUCTS

PRESIDENT & CHIEF EXECUTIVE OFFICER'S REVIEW

CONTINUED

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

CASH FLOW AND BALANCE SHEET

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

SHARE BUYBACK

The Board has approved a share buyback program, pursuant to which, the Board intends to carry out an on-market buyback of such number of its listed shares of common stock as are equal to US\$ 1.0m. The purpose of this is in mitigating future dilution resulting from share issuances under the Company's equity award programs. The Company expects to complete this program by the end of 2021.

PRODUCT DEVELOPMENT

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

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

COVID-19 RESPONSE

RESPONDING TO THE PANDEMIC

Our first priority has been to protect the health and welfare of our employees, customers and suppliers.

EXPANSION UPDATE

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

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

CONCLUSION

We feel fortunate to have successfully navigated through the COVID-19 pandemic in 2020. We are confident in the talent, dedication and resolve of our management team and employees, all of whom rose to the unprecedented challenges we were faced with. We delivered strong financial results, paid US\$ 13.9m in dividends to shareholders, significantly advanced our new product initiatives, and ended the year with the highest level of cash in our Company's history. We now enter 2021 with a healthy North American market, opportunities for growth in our international markets, and an exciting range of growth prospects from new products in front of us. With all of this in place, we are extremely well positioned for our next phase of growth and look forward to delivering another year of substantial progress for our shareholders.

Jack Cooney

President and Chief Executive Officer
March 10, 2021

Notes:

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

ACTIONS

in Q1 2020, management implemented strict health and safety protocols for all our employees to protect them and help limit the impact of the virus on our community. The Company also enacted a series of measures to reduce costs and conserve cash to protect the Company's financial resources.

BUSINESS RESILIENCE

The Company redefined how we work and communicate, leveraging technology to deliver for our customers with minimal interruption. Our employees embraced and adjusted to all the changes brought on by the pandemic, worked tirelessly to protect each other, our customers and suppliers while continuing to deliver superior products and service. The flexibility of our cost structure was never more evident as the Company delivered healthy profits and cash flow for our shareholders despite all the uncertainty we faced.



MARKET OVERVIEW

OPPORTUNITY FOR GROWTH

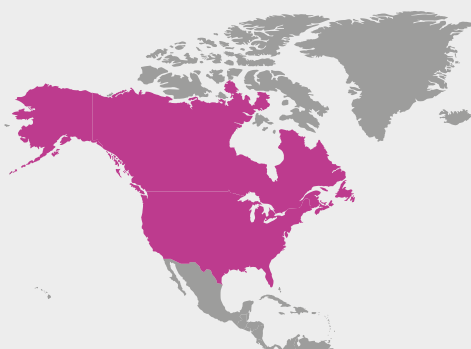
Demand for Somero's equipment is driven by demand for quality floors and a shortage of skilled workers.

OUR LOCATIONS

NORTH AMERICA

Estimated 2020 global cement consumption⁽¹⁾

3%



MARKET DYNAMICS

- Largest market and installed base of equipment
- Non-residential construction market fundamentals remain positive in the US
- Healthy economy supported by extended customer project backlogs are positive factors for US construction industry outlook

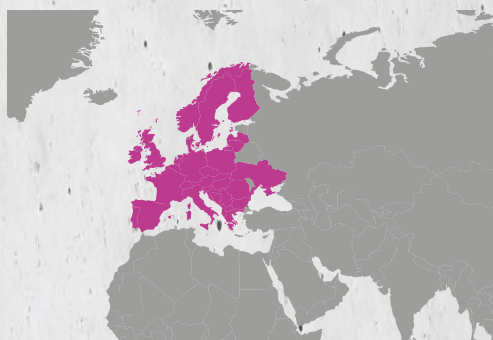
DRIVERS OF GROWTH

- US non-residential construction spend expected to grow by 3% annually from 2022 - 2025⁽²⁾
- New product introductions
- New technology to upgrade fleet of installed equipment
- Fleet additions
- Shortage of skilled labor in concrete construction industry
- Accelerated shift toward e-commerce driving demand for warehousing

EUROPE

Estimated 2020 global cement consumption⁽¹⁾

5%



MARKET DYNAMICS

- Second largest installed base of equipment
- Positive non-residential construction market conditions in the European region

DRIVERS OF GROWTH

- Increased non-residential construction activity across mainland Europe
- New product introductions
- New technology to upgrade installed base of equipment
- Fleet additions
- Shortage of skilled labor in concrete construction industry
- Accelerated shift toward e-commerce driving demand for warehousing

Notes:

1. Source: Cembureau, Cemnet and Morgan Stanley.
2. FMI Research Services Group 2021 North American Construction Outlook.



WE NOW ENTER 2021 WITH A HEALTHY NORTH AMERICAN MARKET, OPPORTUNITIES FOR GROWTH IN OUR INTERNATIONAL MARKETS, AND AN EXCITING RANGE OF GROWTH PROSPECTS FROM NEW PRODUCTS.

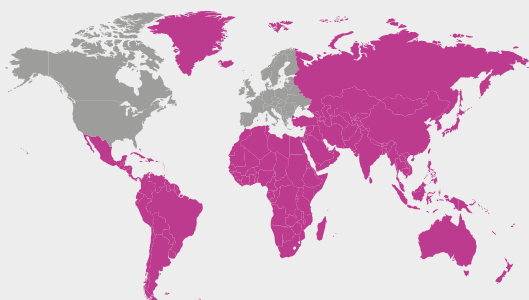
Jack Cooney

President and Chief Executive Officer

REST OF WORLD

Estimated 2020 global cement consumption⁽¹⁾

92%



MARKET DYNAMICS

- Current market penetration very low
- Most significant opportunities are in China and India which are estimated to represent 55% and 8% of the world's cement consumption in 2020⁽¹⁾
- Significant opportunities in the Middle East, Southeast Asia, Latin America and Australia

DRIVERS OF GROWTH

- Accelerating non-residential construction activity
- Growing demand for quality concrete flooring
- New product introductions
- Accelerated shift toward e-commerce driving demand for warehousing
- Shortage of skilled labor in concrete construction industry



Shanghai, China

OUR BUSINESS MODEL

A SIMPLE & PROVEN MODEL

WHAT WE DO

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 THEM ACCESS TO UNPARALLELED INDUSTRY EXPERTISE, SERVICE, TRAINING AND SUPPORT.

Jack Cooney
President and Chief Executive Officer

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



WHO WE WORK WITH

Somero operates in markets across the globe, selling products in 90+ countries.

We work with small, medium and large concrete contractors and self-performing general contractors. Our equipment has been used in construction projects for a wide array of the world's largest organizations.

WHAT MAKES US DIFFERENT



INNOVATIVE PRODUCT LEADERSHIP

- Pioneered Laser Screed® machine market in 1986
- Product portfolio grown to 17 products
- Designs protected by 87 patents/ applications
- Product development fuelled 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

OUR BENEFICIARIES



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 CUSTOMERS

- 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 INVESTORS

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

OUR STRATEGY

SUSTAINABLE GLOBAL GROWTH

To deliver 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.

STRATEGIC OBJECTIVE

PROGRESS DURING THE YEAR



PRODUCT INNOVATION

To push the industry forward with innovative propriety designs that enable customers to reduce manpower, increase speed and safety while providing the highest quality concrete slabs for building owners.

- Launched three new products: SkyScreed® 36, SRS-4 boomed-screed, Somero Broom + Cure™
- Portfolio expanded to 17 products

2020 New Product
Revenues

US\$ 7.4m

Current Patents &
Applications

87



INTERNATIONAL MARKETS

To deepen our global footprint through investment in adding resources internationally and promoting adoption of wide-placement theory and quality concrete flooring standards.

- Introduced SRS-4 to international markets, exploring opportunities for SkyScreed internationally
- Added direct resources to cover Australian market

Non-Operational Staff
Located Internationally

24%

Countries with
Somero Equipment

93



OUR VISION

For our innovative technology to be used whenever horizontal concrete slabs are placed. It is a vast opportunity, and we continue to develop customer solutions that expand the market segments and applications we address.

OUR STRATEGY

To deliver innovative, technology solutions to concrete flooring contractors that produce the highest quality results in the most efficient, cost-effective and safe manner possible. **Faster, Flatter, Fewer@ and safer**

See more information on page 18

SRS-4 Boom Laser Screed® with trailer

ONGOING PRIORITIES

- Expand Somero’s addressable market by developing new solutions for our customers that improve the efficiency, productivity and safety of their operations and the quality of their projects
- Promote the benefits of wide-placement theory and quality flooring standards across the globe to penetrate international markets with new and existing products



STRATEGY IN ACTION



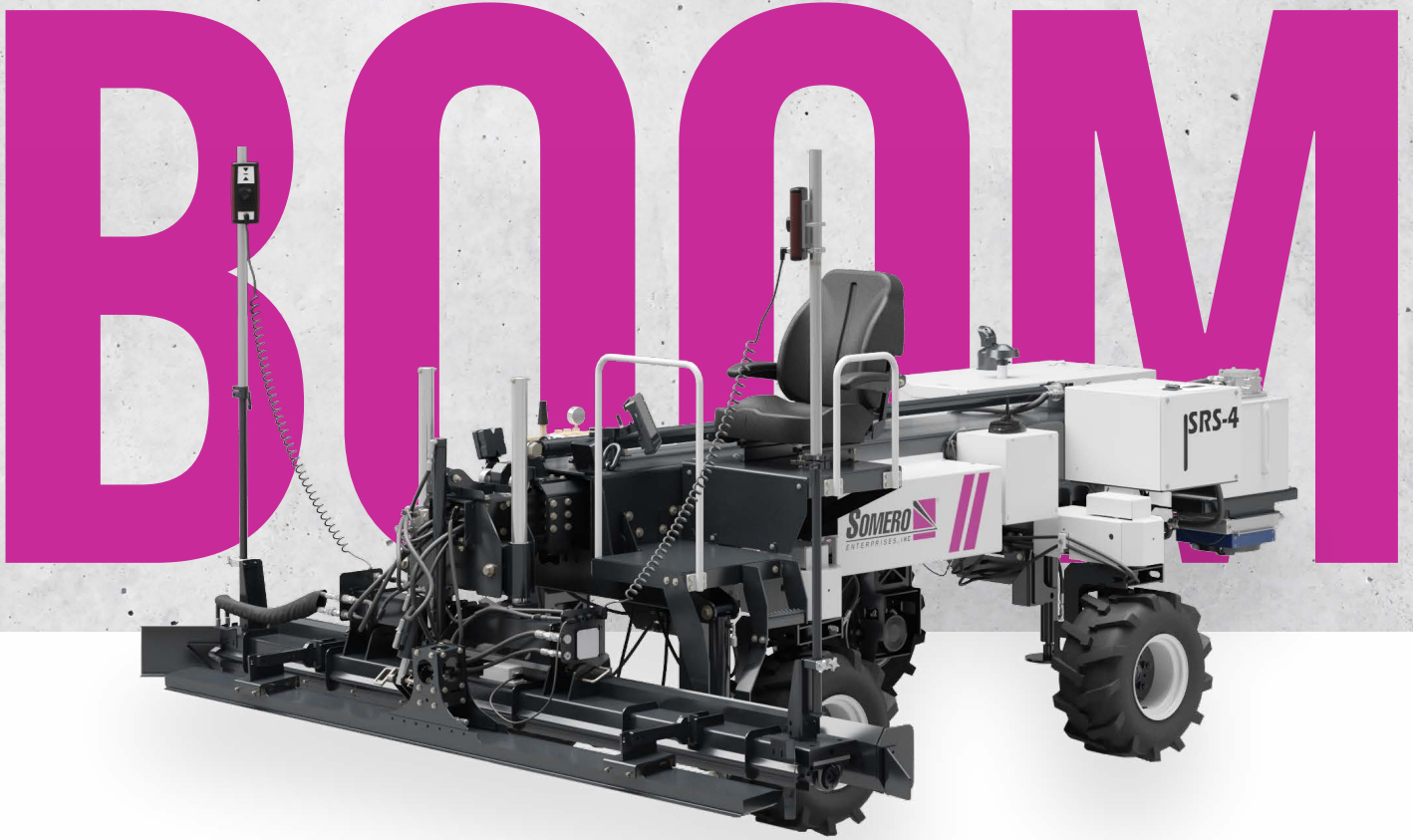
Melbourne facility

SOMERO AUSTRALIA

In late 2020, the Company changed its Australian go-to-market strategy by adding direct resources to sell to and support customers in Australia and New Zealand in place of a long-standing dealer relationship. We believe this change creates the opportunity to further penetrate the Australian and New Zealand markets with new products in the years to come.

PRODUCT INNOVATION

SRS-4 BOOM LASER SCREED®



**OUR LIGHTEST
LASER SCREED
EVER**



↑ SRS-4 Boom Laser Screed® in action

GAME CHANGER

The SRS-4 is the lightest weight, easiest to transport compact boomed laser screed machine Somero has ever offered.

At just 4,440 lbs. with a compact head design, the machine is easily transported on a trailer making this an attractive option for hard-to-reach job sites.

Also, with remote controlled operation, no lower frame and crab steering, the machine provides 360° visibility and highly manoeuvrable operation.



FINANCIAL REVIEW

SUMMARY OF FINANCIAL RESULTS

	Year ended December 31,	
	2020 US\$ 000 Except per share data	2019 US\$ 000 Except per share data
Revenue	88,572	89,306
Cost of sales	39,758	38,602
Gross profit	48,814	50,704
Operating expenses		
Selling, marketing and customer support	10,312	11,108
Engineering and product development	1,826	1,796
General and administrative	12,821	11,198
Total operating expenses	24,959	24,102
Operating income	23,855	26,602
Other income (expense)		
Interest expense	(45)	(42)
Interest income	244	241
Foreign exchange impact	47	(71)
Other	511	310
Income before income taxes	24,612	27,040
Provision for income taxes	5,839	5,929
Net income	18,773	21,111
	Per Share US\$	Per Share US\$
Basic earnings per share	0.33	0.37
Diluted earnings per share	0.33	0.37
Basic adjusted net income per share ^{(1), (3), (4)}	0.34	0.38
Diluted adjusted net income per share ^{(1), (3), (4)}	0.33	0.37
Other data		
Adjusted EBITDA ^{(1), (2), (4)}	26,106	28,714
Adjusted net income ^{(1), (3), (4)}	18,873	21,126
Depreciation expense	965	977
Amortization of intangibles	153	145
Capital expenditures	3,734	3,015

Notes:

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

Notes:

- 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 net income plus tax provision, interest expense, interest income, foreign exchange gain/(loss), other expense, depreciation, amortization, stock-based compensation and non-cash lease expense.
- 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 1% to US\$ 88.6m (2019: US\$ 89.3m). Company revenues consist primarily of sales from Boomed screed products, which include the S-22E, S-22EZ, S-15R, S-10A and SRS-4 Laser Screed machines, sales from Ride-on screed products, which are driven through the concrete machines that include the S-485, S-940 and S-158C Laser Screed machines, Remanufactured machine sales, 3-D Profiler System, Somero Line Dragon (formerly SP-16 Concrete Hose Line-Pulling and Placing Systems), SkyScreed and Other revenues which consist primarily of revenue from sales of parts and accessories, sales of other equipment (including the Broom + Cure™), service, training and shipping charges.

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

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

- Notes:
- EMEA includes Europe, the Middle East, Scandinavia and Russia.
 - ROW includes China, Australia, Latin America, Korea, India and Southeast Asia.
 - Boomed screeds include the S-22E, S-22EZ, S-15R, S-10A and SRS-4.
 - Ride-on screeds include the 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 Somero Broom + Cure™, STS-11M Topping Spreader, Copperhead, and Mini Screed C.

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

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

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

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

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

- Notes:
- Includes Australia, India, Southeast Asia, Korea and Russia.

GROSS PROFIT

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

OPERATING EXPENSES

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

DEBT

As of December 31, 2020, the Company had no outstanding debt. The Company renewed its US\$ 10.0m secured revolving line of credit extending the term to mature in September 2024 and no other material changes.

OTHER INCOME (EXPENSE)

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

PROVISION FOR INCOME TAXES

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

EARNINGS PER SHARE

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

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

	Year ended December 31,	
	2020 US\$ 000	2019 US\$ 000
Income available to stockholders	18,773	21,111
Basic weighted shares outstanding	56,336,687	56,330,400
Net dilutive effect of stock options and restricted stock units	636,909	489,218
Diluted weighted average shares outstanding	56,973,596	56,819,618
	Per Share US\$	Per Share US\$
Basic earnings per share	0.33	0.37
Diluted earnings per share	0.33	0.37
Basic adjusted net income per share	0.34	0.38
Diluted adjusted net income per share	0.33	0.37

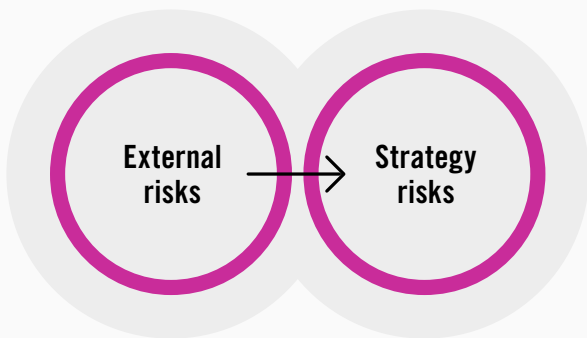
RISK MANAGEMENT

Active risk management is essential for Somero to drive successful operations. The Company is impacted by various types of risks including strategic and external risks as well as business risks such as operational and financial risks. Somero monitors and minimizes these risks in a structured and proactive manner.

RISK MANAGEMENT FRAMEWORK

Somero faces different types of risks that can be divided into strategic risks and manageable business risks.

STRATEGIC RISKS

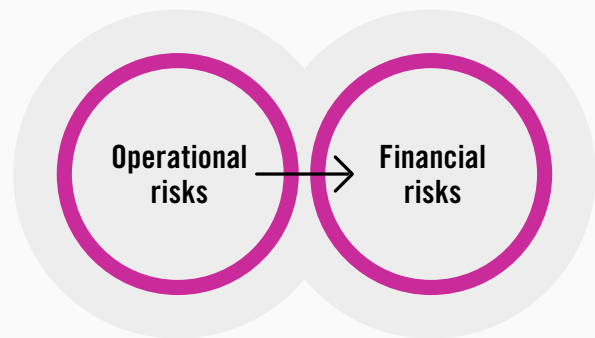


Our strategic priorities in combination with the external environment impact how we assess and manage business risks and opportunities

Our strategic priorities are related to the Company's strategy and are impacted by the external environment, while the business risks are related to operational and financial risks.

Senior management identifies and evaluates major business risks, then designs and implements internal control systems to mitigate these risks. On an annual basis, an evaluation of the effectiveness of the Company's internal control systems is reported and discussed with the Board of Directors and the Audit Committee.

MANAGEABLE RISKS



**Policies
Corporate governance**

The evaluation includes consideration of how internal control systems can be improved. In 2020, one improvement implemented was enhancement of data security measures that included additional front-end protection to reduce the risk of unauthorized access to Company data and more robust data storage and recovery capabilities.

PRINCIPAL 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.

ER External Risks

SR Strategy Risks

OR Operational Risks

FR Financial Risks

FLEXIBLE COST STRUCTURE OR

A large portion of Somero's cost structure is variable and comprised mainly of costs related to raw materials and components as well as personnel and personnel-related costs. Somero aims to maintain a flexible cost structure that enables the Company to be agile and adopt quickly to fluctuations in market demand.

DATA SECURITY FR

All business sectors are targeted by increasingly sophisticated cyber security attacks, a risk that is elevated with an increased number of employees working remotely as a result of the COVID-19 pandemic. The risk of unauthorized access to or loss of data in respect to our company, employees or suppliers could result in financial exposure or business interruption.

BANK OBLIGATIONS FR

In November 2020, the Company entered into an amended credit facility that included a US\$ 10.0m secured revolving line of credit that will mature in September 2024. The Company's credit facility is secured by substantially all its business assets.

EMPLOYEE RETENTION OR

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 ER

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 meaningful 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 SR

Somero invests significantly in 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 2020, sales of the SkyScreed® 36, SRS-4 and the Somero Broom + Cure™ combined to contribute US\$ 7.4m in incremental 2020 sales compared to 2019.

PRODUCT REPLACEMENT DEMAND SR

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 SR

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 FR

Somero's financial performance is also linked to prevailing interest rates; see "Liquidity and Capital Resources" below.

LIQUIDITY FR

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. Operations are primarily funded through existing cash.

CAPITAL RESOURCES FR

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. The amended credit 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. As of December 31, 2020, the Company had not drawn any amounts under the revolving portion of its Citizens Bank Financing Agreement.

RESPONSIBLE BUSINESS

STAKEHOLDER ENGAGEMENT

Somero interacts with many parties who have an interest in the way we conduct business and the relationship we foster with these stakeholders has a direct impact on our success.

Our approach to acting responsibly

To be a sustainable business is to strike the right balance between shareholder expectations and the needs and concerns of our employees and customers, the communities we live in and the environment.



OUR STAKEHOLDERS

CUSTOMERS

Somero has developed long-term relationships with our global customer base. These relationships are built on years of providing innovative solutions and access to extensive training and expertise, all with the goal of helping our customers build successful, profitable businesses.

Material Topics

- New product development & innovation
- Reliable, high-quality products & services
- Training & education to develop skilled labour
- Enhanced job-site safety

How We Engage

We engage directly with our customers on a daily basis through our field sales team and customer support teams, continually listening to ensure our products meet their needs and create brand loyalty. We also engage with customers through multiple marketing channels, including participating in trade shows, utilizing digital channels (websites, social media) and traditional print media.

EMPLOYEES

Great results can only be achieved through the efforts of our dedicated and talented team of employees around the world. We work hard to ensure that our culture and values-based approach provides our employees with every opportunity to fulfil their potential.

Material Topics

- Working environment, culture & values
- Competitive compensation & benefits
- Opportunities for learning & career development

How we engage

We regularly engage with our employees through Company team meetings, bi-annual performance reviews, Company-wide communications, and more informally through a variety of social events. Employee development plans are a key part of performance reviews to support personal growth as well as each employee's wider contribution to Company performance. The Company has invested in communication tools to support effective remote working, idea sharing and collaboration.

INVESTORS

Somero has always prioritized maintaining an open and transparent dialogue with our shareholders to ensure they have a good understanding of our business operations, strategy and performance. We believe this is a critical component of our corporate governance processes.

Material Topics

- Financial & operational performance
- Business strategy & model
- Market conditions
- Dividend & return of capital policy

How we engage

We actively engage with our shareholders through periodic trading updates, half-year and full-year results announcements, investor roadshows, one-to-one meetings, recorded results presentations posted to our website, our Annual General Meeting, and our Annual Report. In addition, we also engage with current or prospective shareholders through our Investor Relations webpage and via contact through our advisors.

COMMUNITIES & ENVIRONMENT

Somero is committed to making a lasting, positive impact on the society in which we operate and the environment more broadly. While as an assembly operation our energy consumption is comparably low and net carbon footprint minimal, Somero continues to evaluate and invest in ways to improve energy efficiency and reduce waste in our operations.

Material Topics

- Broader environmental goals & targets
- Financial support & donations to charities

How we engage

We engage with the communities in which we operate to identify ways to support local causes, providing financial support for a variety of local charities identified by our employees. We actively monitor ways to reduce the environmental impact of our operations, and the products we produce, by closely watching industry and technological developments and, wherever possible, anticipating changing legislative and customer demands. This important area is regularly discussed in strategic meetings with senior management.

BOARD OF DIRECTORS

LAWRENCE L. HORSCH

Non-Executive Chairman of the Board

Mr. Horsch, age 86, 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 74, 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 50, 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, and 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 59, 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 and 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 in the U.S. Marine Corps.

THOMAS M. ANDERSON

Non-Executive Director

Mr. Anderson, age 70, 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 62, has served in a series of senior executive roles at Dover Corporation, an US\$ 8bn Fortune 500 company. Most recently, from 2011 to 2014, Mr. Scheuer was Chief Financial Officer and Vice President Finance of Dover Engineered Systems, a US\$ 3.8bn 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 US\$ 2.4bn business segment of Dover Corporation and from 1998 to 2007 as Chief Financial Officer and Vice President of Finance of Dover Industries, a US\$ 1.2bn 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 US\$ 1.7bn multi-brand portfolio with six 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 Principle 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 14-15 and 16-19 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. In addition, retail investors are invited to a briefing immediately following announcement of Somero's interim and full-year results and this presentation is recorded and posted to Somero's Investor Relations website. 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 26-27 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 Principle 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, 2020 has been maintained and has taken account of any material developments since the year end.

In accordance with Principle 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 small 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 12 regularly scheduled monthly Board meetings, two Audit Committee meetings, one Remuneration Committee meeting and one Nomination Committee meeting.

In accordance with Principle 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.

CORPORATE GOVERNANCE REPORT

CONTINUED

In accordance with Principle 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 2020 and it was determined the Board as constructed serves the Company's needs for proper governance.

In respect of compliance with Principle 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 6 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 24-25 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 Nomination 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 Principle 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 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 2020 and 2019.

	Year ended December 31, 2020 US\$ 000	Year ended December 31, 2019 US\$ 000
Audit	169	178
Tax	129	227
Other	—	—

The Remuneration Committee

The Remuneration Committee comprises 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

The Nomination Committee comprises 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, and 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 2020	Bonus 2020 ⁽¹⁾	Bonus paid in common shares 2020 ⁽²⁾	Salary 2021	Bonus opportunity 2021	Options held	Restricted stock units held
L Horsch	\$134,044 ⁽⁵⁾	–	–	\$137,035	–	–	12,312
J Cooney	\$487,587	\$290,298	–	\$502,214	0%-100% ⁽³⁾	–	131,804
J Yuncza	\$314,209	\$187,072	\$50,000	\$323,615	0%-100% ^{(3),(4)}	–	92,957
H Hohmann	\$328,584	\$195,601	–	\$338,390	0%-100% ^{(3),(4)}	–	82,321
T Anderson	\$95,011 ⁽⁵⁾	–	–	\$97,862	–	–	18,260
R Scheuer	\$95,011 ⁽⁵⁾	–	–	\$97,862	–	–	5,356

Notes:

- Bonus earned for 2020 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 targets approved by the Remuneration Committee.
- The amount included in the 2020 bonus that was paid in common shares in lieu of cash under the Company's Equity Bonus Plan, as described in Note 16 to the consolidated financial statements.
- 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 targets approved by the Remuneration Committee.
- At the discretion of the Remuneration Committee and based upon employee election, up to 100% of annual bonus and commission amounts can be paid in the form of common shares.
- Beginning in 2020, the full board fee was paid in cash, and no RSUs or other equity instrument were issued to Non-Executive Directors as part of their compensation.

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 annual increases as determined by the full Board. At the end of 2019, the Company engaged an independent third-party consultant to benchmark the compensation structure and level for Executive and Non-Executive Directors. The results of this study were reviewed by the Remuneration Committee to assess the fairness and competitiveness of the Company's compensation for Executive and Non-Executive Directors in comparison to peer companies and with regard to the U.S. labor market.

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;
- bonuses that are based solely on the performance and 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, 2020, 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 in 2020, and in support of the Company strategic initiatives, the annual established targets approved by the Remuneration Committee included revenue and cost targets. In 2021, the annual established targets approved by the Remuneration Committee include revenue and EBITDA 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 6 to 18 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.

DIRECTORS' REMUNERATION REPORT

CONTINUED

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 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.

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. All equity awards issued in 2020 are governed by Somero's 2020 Equity Incentive Plan. 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 2020, 146,980 RSUs were exercised or forfeited, 326,960 units issued, leaving a balance of 666,070 units as of December 31, 2020. 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, 2020 was 390.0p. The range during the 2020 period of trading was 152.0p 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, 2020 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 9, 2020	2023 AGM
T Anderson	II	June 9, 2020	2023 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.

DIRECTORS' REPORT

The directors present their Annual Report and the audited financial statements for the year ended December 31, 2020.

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\$ 13.9m were paid in 2020. A 30.9 US cents per share dividend was declared for the period ending December 31, 2020, with a record date of April 9, 2021, payable on April 30, 2021.

Share capital

	Ordinary Shares	
	January 1, 2020	December 31, 2020
L Horsch	46,000	46,000
J Cooney	614,634	614,634
J Yuncza	99,811	116,051
H Hohmann	73,662	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, 2020 was 390.0p. The range during the 2020 period of trading was 152.0p to 390.0p.

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, 2020

	Amount	% holding
Unicorn Asset Mgt	5,623,428	10.00
Canacoccord Genuity Wealth Mgt	5,143,272	9.15
Close Brothers Asset Mgt	4,433,329	7.89
River & Mercantile Asset Mgt	3,714,945	6.61
Jupiter Asset Mgt	2,108,780	3.75
Artemis Investment Mgt	3,874,644	6.89
Janus Henderson Investors	2,118,980	3.77
Chelverton Asset Mgt	2,097,698	3.73
Hargreaves Lansdown Asset Mgt	2,779,195	4.94
Lazard Freres Banque	2,152,657	3.83

DIRECTORS' REPORT

CONTINUED

Director restricted stock units

Director	January 1, 2020	Award/ (Exercise)	Cancelled	December 31, 2020	Weighted average grant date fair market value (USD)	Vesting date	Fully vested date
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
H Hohmann	–	46,512	–	46,512	2.83	3/13/2023	3/13/2023
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
J Cooney	–	69,030	–	69,030	2.83	3/13/2023	3/13/2023
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	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
J Yuncza	–	44,484	–	44,484	2.83	3/13/2023	3/13/2023
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. For more information regarding Somero's approach to social responsibility, please refer to the Stakeholder Engagement section on pages 26-27 of this Annual Report.

Donations

During the year, the Company made no political donations. Charitable donations were made in the amount of US\$ 91,187 for 2020. For more information regarding Somero's community support, please refer to the Stakeholder Engagement section on pages 26-27 of this Annual Report.

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. While, as an assembly operation our energy consumption is comparably low and net carbon footprint minimal, Somero continues to evaluate and invest in ways to improve energy efficiency and reduce waste in our operations. For more information regarding Somero's approach to business sustainability, please refer to the Stakeholder Engagement section on pages 26-27 of this Annual Report.

John Yuncza

Company Secretary
March 10, 2021

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, 2020 and 2019, 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, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in conformity with GAAP.



Plano, Texas
March 10, 2021

CONSOLIDATED BALANCE SHEETS

As of December 31, 2020 and 2019

	As of December 31,	
	2020 US\$ 000	2019 US\$ 000
Assets		
Current assets:		
Cash and cash equivalents	35,388	23,757
Accounts receivable – net	6,411	11,979
Inventories – net	11,127	12,289
Prepaid expenses and other assets	1,676	1,291
Total current assets	54,602	49,316
Accounts receivable, non-current – net	736	904
Property, plant, and equipment – net	16,509	13,714
Financing lease right-of-use assets – net	485	557
Operating lease right-of-use assets – net	1,295	1,213
Intangible assets – net	1,545	1,698
Goodwill	3,294	3,303
Deferred tax asset	80	564
Other assets	303	261
Total assets	78,849	71,530
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	4,380	2,227
Accrued expenses	6,702	5,960
Financing lease liability – current	162	148
Operating lease liability – current	204	247
Income tax payable	888	1,078
Total current liabilities	12,336	9,660
Financing lease liability – long-term	228	262
Operating lease liability – long-term	1,133	982
Other liabilities	1,622	1,587
Total liabilities	15,319	12,491
Stockholders' equity		
Preferred stock, US\$.001 par value, 50,000,000 shares authorized, no shares issued and outstanding	–	–
Common stock, US\$.001 par value, 80,000,000 shares authorized, 56,425,598 and 56,425,598 shares issued and 56,124,409 and 56,348,068 shares outstanding at December 31, 2020 and 2019, respectively	26	26
Less: treasury stock, 301,189 shares as of December 31, 2020 and 77,530 shares as of December 31, 2019 at cost	(1,040)	(191)
Additional paid-in capital	17,598	17,001
Retained earnings	49,771	44,923
Other comprehensive loss	(2,825)	(2,720)
Total stockholders' equity	63,530	59,039
Total liabilities and stockholders' equity	78,849	71,530

See the Notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31, 2020 and 2019

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

See the Notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the years ended December 31, 2020 and 2019

	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, 2019	56,425,598	26	16,969	137,269	(326)	41,255	(2,824)	55,100
Cumulative translation adjustment	–	–	–	–	–	–	104	104
Net income	–	–	–	–	–	21,111	–	21,111
Stock-based compensation	–	–	760	–	–	–	–	760
Dividend	–	–	–	–	–	(17,443)	–	(17,443)
Treasury stock	–	–	(135)	(59,739)	135	–	–	–
RSUs settled for cash	–	–	(593)	–	–	–	–	(593)
Balance – December 31, 2019	56,425,598	26	17,001	77,530	(191)	44,923	(2,720)	59,039
Cumulative translation adjustment	–	–	–	–	–	–	(105)	(105)
Net income	–	–	–	–	–	18,773	–	18,773
Stock-based compensation	–	–	911	–	–	–	–	911
Dividend	–	–	–	–	–	(13,925)	–	(13,925)
Treasury stock	–	–	849	(44,354)	(849)	–	–	–
RSUs settled for cash	–	–	(223)	–	–	–	–	(223)
Share buy-back	–	–	(951)	268,013	–	–	–	(951)
Investment in subsidiary	–	–	11	–	–	–	–	11
Balance – December 31, 2020	56,425,598	26	17,598	301,189	(1,040)	49,771	(2,825)	63,530

See the Notes to the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2020 and 2019

	Year ended December 31,	
	2020 US\$ 000	2019 US\$ 000
Cash flows from operating activities:		
Net income	18,773	21,111
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred taxes	484	286
Depreciation and amortization	1,118	1,122
Non-cash lease expense	222	230
Bad debt	215	188
Stock-based compensation	911	760
Gain on non-cash payment for intangible asset	–	(171)
Gain/(Loss) on disposal of property and equipment	(98)	16
Working capital changes:		
Accounts receivable	5,521	(2,494)
Inventories	1,162	(1,374)
Prepaid expenses and other assets	(385)	210
Other assets	(42)	(35)
Accounts payable, accrued expenses and other liabilities	2,945	936
Income taxes payable	(190)	(1,934)
Net cash provided by operating activities	30,636	18,851
Cash flows from investing activities:		
Proceeds from sale of property and equipment	80	–
Property and equipment purchases	(3,734)	(3,015)
Payments for intangible assets	–	(138)
Business acquisition, net of cash acquired	–	(2,073)
Net cash used in investing activities	(3,654)	(5,226)
Cash flows from financing activities:		
Payment of dividend	(13,925)	(17,443)
RSUs settled for cash	(223)	(593)
Stock buy-back	(951)	–
Investment in subsidiary	11	–
Payments under financing leases	(158)	(169)
Net cash used in financing activities	(15,246)	(18,205)
Effect of exchange rates on cash and cash equivalents	(105)	104
Net increase/(decrease) in cash and cash equivalents	11,631	(4,476)
Cash and cash equivalents:		
Beginning of year	23,757	28,233
End of year	35,388	23,757

See the Notes to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2020 and 2019

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

Nature of business

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation

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

Principles of consolidation

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

Cash and cash equivalents

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

Accounts receivable and allowances for doubtful accounts

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of accounts receivable. The Company’s accounts receivable are derived from revenue earned from a diverse group of customers. The Company performs credit evaluations of its commercial customers and maintains an allowance for doubtful accounts receivable based upon the expected ability to collect accounts receivable. Allowances, if necessary, are established for amounts determined to be uncollectible based on specific identification and historical experience. As of December 31, 2020 and 2019, the allowance for doubtful accounts was approximately US\$ 1,187,000 and US\$ 961,000, respectively. Bad debt expense was US\$ 215,000 and US\$ 188,000 in 2020 and 2019, respectively.

Inventories

Inventories are stated using the first in, first out (“FIFO”) method at the lower of cost or net realizable value (“NRV”). Provision for potentially obsolete or slow-moving inventory is made based on management’s analysis of inventory levels and future sales forecasts. As of December 31, 2020 and 2019, the provision for obsolete and slow-moving inventory was US\$ 361,000 and US\$ 346,000, respectively.

Business combinations and purchase accounting

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

Intangible assets and goodwill

Intangible assets consist primarily of customer relationships, trademarks and patents, and are carried at their fair value when acquired, less accumulated amortization. Intangible assets are amortized using the straight-line method over a period of 3 to 17 years, which is their estimated period of economic benefit.

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

Revenue recognition

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

As of December 31, 2020 and 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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

As of December 31, 2020 and 2019, there are US\$ 3,009,000 and US\$ 596,000, respectively, in customer deposit liabilities for advance payments received during the period for contracts expected in the following period. As of the year ended December 31, 2020 and 2019, there are no significant contract costs such as sales commissions or costs deferred. Interest income on financing arrangements is recognized as interest accrues, using the effective interest method.

Leases

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

Warranty liability

The Company provides warranties on all equipment sales ranging from 60 days to three years, depending on the product. Warranty liabilities are estimated net of the warranty passed through to the Company from vendors, based on specific identification of issues and historical experience.

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

Property, plant, and equipment

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

Income taxes

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

Use of estimates

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

Stock-based compensation

The Company recognizes the cost of employee services received in exchange for an award of equity instruments in the financial statements over the period the employee is required to perform the services in exchange for the award (presumptively the vesting period). The Company measures the cost of employee services in exchange for an award based on the grant-date fair value of the award. Compensation expense related to stock-based payments was US\$ 911,000 and US\$ 760,000 for the years ended December 31, 2020 and 2019, respectively. In addition, the Company settled US\$ 223,000 and US\$ 593,000 in restricted stock units for cash during the years ended December 31, 2020 and 2019, respectively.

Transactions in and translation of foreign currency

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

Comprehensive income

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

Earnings per share

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

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

	Year ended December 31,	
	2020 US\$ 000	2019 US\$ 000
Income available to stockholders	18,773	21,111
Basic weighted shares outstanding	56,336,687	56,330,400
Net dilutive effect of stock options and restricted stock units	636,909	489,218
Diluted weighted average shares outstanding	56,973,596	56,819,618

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

As of December 31, 2020 and 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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, 2019			
Asset: Goodwill	3,303		3,303
Year ended December 31, 2020			
Asset: Goodwill	3,294		3,294

3. INVENTORIES

Inventories consisted of the following:

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

4. ACQUISITION

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

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

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

5. GOODWILL AND INTANGIBLE ASSETS

Goodwill represents the excess of the cost of a business combination over the fair value of the net assets acquired. The Company is required to test goodwill for impairment, at the reporting unit level, annually and when events or circumstances indicate the fair value of a unit may be below its carrying value. The results of the qualitative assessment indicated that goodwill was not impaired as of December 31, 2020 and 2019, and that the value of patents was not impaired as of December 31, 2020. The following table reflects other intangible assets:

		Weighted average amortization period	Year ended December 31,	
			2020 US\$ 000	2019 US\$ 000
Capitalized cost	Patents	12 years	19,247	19,247
	Intangible Assets		7,434	7,434
			26,681	26,681
Accumulated amortization	Patents	12 years	18,626	18,578
	Intangible Assets		6,510	6,405
			25,136	24,983
Net carrying costs	Patents	12 years	621	669
	Intangible Assets		924	1,029
			1,545	1,698

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

6. PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment consist of the following:

		Year ended December 31,	
		2020 US\$ 000	2019 US\$ 000
Land		864	864
Building and improvements		15,278	13,149
Machinery and equipment		6,906	5,414
		23,048	19,427
Less: accumulated depreciation and amortization		(6,539)	(5,713)
		16,509	13,714

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

7. LINE OF CREDIT AND NOTE PAYABLE

In November 2020, the Company renewed its amended credit facility, which consists of a US\$ 10.0m secured revolving line of credit, extending the maturity to September 2024. The interest rate on the revolving line of credit is based on the one-month LIBOR rate plus 1.25%. The Company's credit facility is secured by substantially all its business assets. No amounts were drawn under the secured revolving line of credit in the years ended December 31, 2020 or in 2019.

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

8. RETIREMENT PROGRAM

The Company has a savings and retirement plan for its employees, which is intended to qualify under Section 401(k) of the Internal Revenue Code ("IRC"). This savings and retirement plan provides for voluntary contributions by participating employees, not to exceed maximum limits set forth by the IRC. The Company's matching contributions vest immediately. The Company contributed approximately US\$ 767,000 to the savings and retirement plan during 2020 and contributed US\$ 690,000 during 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

As of December 31, 2020 and 2019

9. LEASES

The Company leases property, vehicles, and equipment under leases accounted for as operating and finance leases. The leases have remaining lease terms of less than 1 year to 12 years, some of which include options for renewal. The exercise of these renewal options is at the sole discretion of the Company. The right-of-use assets and related liabilities presented on the Consolidated Balance Sheet, reflect management's current expectations regarding the exercise of renewal options. The components for lease expense were as follows, as of December 31, 2020:

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

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

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

10. SUPPLEMENTAL CASH FLOW AND NON-CASH FINANCING DISCLOSURES

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

11. BUSINESS AND CREDIT CONCENTRATION

The Company's line of business could be significantly impacted by, among other things, the state of the general economy, the Company's ability to continue to protect its intellectual property rights, and the potential future growth of competitors. Any of the foregoing may significantly affect management's estimates and the Company's performance. At December 31, 2020 and 2019, the Company had five customers which represented 32% and three customers which represented 22% of total accounts receivable, respectively.

12. COMMITMENTS AND CONTINGENCIES

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

13. INCOME TAXES

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

As of December 31, 2020 and 2019

13. INCOME TAXES CONTINUED

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

	Year ended December 31,	
	2020 US\$ 000	2019 US\$ 000
Consolidated income before tax	24,612	27,040
Statutory rate	21%	21%
Statutory tax expense	5,169	5,678
State taxes	723	681
Foreign taxes	(33)	(48)
Permanent differences due to stock options and RSUs	34	(70)
Permanent differences due to other items	25	(11)
Foreign derived intangible income	(323)	(458)
Change in valuation allowance	42	60
Change in reserve	76	108
Other	126	(11)
Tax expense	5,839	5,929

As of December 31, 2020, the Company has US\$ 936,000 of foreign loss carryforwards with an indefinite carryforward life. Management assesses the recoverability of our deferred tax assets as of the end of each quarter, weighing all positive and negative evidence, and is required to establish and maintain a valuation allowance for these assets if we determine that it is more likely than not that some or all of the deferred tax assets will not be realized. The weight given to the evidence is commensurate with the extent to which the evidence can be objectively verified. If negative evidence exists, positive evidence is necessary to support a conclusion that a valuation allowance is not needed. As of December 31, 2020, management has determined that a valuation allowance is currently needed against the Company's net operating loss carryforward deferred tax assets.

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. The Company has open years for the tax year 2013 and forward. The Company has open years related to United Kingdom filings for the tax year 2018, and open years related to Italian filings for the tax year 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% likelihood of being realized upon ultimate settlement with the relevant tax authority.

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

Unrecognized tax benefits – January 1, 2019	958
Increases from positions taken during prior periods	–
Increases from positions taken during current period	–
Settled positions	–
Lapse of statute of limitations	–
Unrecognized tax benefits – December 31, 2019	958
Unrecognized tax benefits – January 1, 2020	958
Increases from positions taken during prior periods	–
Increases from positions taken during current period	–
Settled positions	–
Lapse of statute of limitations	–
Unrecognized tax benefits – December 31, 2020	958

The amount of unrecognized tax benefits as of December 31, 2020, if recognized, would favorably affect the Company's effective tax rate. These unrecognized tax benefits are classified as "Other long-term liabilities" in the Company's consolidated balance sheet as the Company does not intend to make significant payments in the next 12 months. The interest and penalties related to the unrecognized tax benefits are US\$ 76,000 and US\$ 108,000 as of December 31, 2020 and 2019, respectively. Interest and penalties related to unrecognized tax benefits are included in the provision for income tax expense.

14. REVENUES BY GEOGRAPHIC REGION

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

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

15. STOCK-BASED COMPENSATION

The Company has stock-based compensation plans which are described below. The compensation cost that has been charged against income for the plans was approximately US\$ 911,000 and US\$ 760,000 for the years ended December 31, 2020 and 2019, respectively. The income tax effect recognized for stock-based compensation was US\$ 0.05m and US\$ 0.1m, respectively, for the years ended December 31, 2020 and 2019.

Restricted stock units

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

A summary of restricted stock unit activity in 2020 and 2019 is presented below:

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

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

As of December 31, 2020, there was US\$ 1,111,000 total unrecognized compensation cost related to non-vested restricted stock units. Restricted stock unit expense is being recognized over the three-year vesting period. The weighted average remaining vesting period is 1.5 years.

16. EMPLOYEE COMPENSATION

The Board approved management bonuses and profit-sharing payments totaling US\$ 1.6m, partly paid in December 2020 and the remainder to be paid in early 2021, based upon the Company meeting certain financial targets.

Equity Bonus Plan

The Company has an Equity Bonus Plan, under which eligible senior managers may choose to receive a percentage of their annual performance bonus in shares of common stock. In March 2020, the Company issued 35,247 shares of common stock, valued at US\$ 100,000 at the time of grant. In March 2019, the Company issued 39,373 shares of common stock, valued at US\$ 201,000 at the time of grant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

As of December 31, 2020 and 2019

17. SHARE BUYBACK

In August 2020, the Board authorized a on-market share buyback program for such number of its listed shares of common stock as are equal to US\$ 1,000,000. The maximum price paid per Ordinary Share was no more than the higher of 105% of the average middle market closing price of an Ordinary Share for the five business days preceding the date of the share buyback, the price of the last independent trade and the highest current independent purchase bid. As of December 31, 2020, the Company purchased 268,013 shares of common stock for an aggregate value of \$950,330. The Company estimates the program will be completed by the end of H1 2021.

18. SUBSEQUENT EVENTS

Dividend

In recognition of Somero's strong performance and the Board of Directors' confidence in the continued growth of the Company, the Board approved a dividend payout ratio of 50% of adjusted net income and is pleased to announce a final 2021 dividend of 12.81 US cents per share that will be payable on April 30, 2021 to shareholders on the register at April 9, 2021. Together with the interim dividend paid in October 2020 of 4.00 US cents per share, this represents a full-year regular dividend to shareholders of 16.81 US cents per share. In addition, due to the strength of the Company's cash position at the end of 2020, and upon the review of anticipated future cash requirements for the business, the Board of Directors has approved a supplemental dividend of 18.10 US cents per share that will be paid together with the final 2020 dividend on April 30, 2021 to shareholders on the register at April 9, 2021. The combined dividend payment on April 30, 2021 will total 30.91 US cents per share, representing a total dividend payment of US\$ 17.3m.

Distribution amount:	\$0.3091 cents per share
Ex-dividend date:	April 8, 2021
Dividend record date:	April 9, 2021
Currency election:	1:00pm (ET) April 23, 2021
Payment date:	April 30, 2021

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

All dividends, including both ordinary and supplemental, have the option of being paid in either GBP or USD. Payments in USD can be paid by check or through CREST. Payments in GBP can be paid via check, CREST and BACS. The default option if no election is made will be for a USD payment via check. Should shareholders wish to change their current currency or payment methods, forms are available through Computershare Investor Services PLC at <https://www-uk.computershare.com/investor/formscatalogue.asp>. If shares are held as Depository Interests through a broker or nominee, the holding company must be contacted and advised of the payment preferences. Such requests are subject to the terms and conditions of the broker or nominee.

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

Equity Bonus Plan

In January 2021, the Board approved the 2020 Equity Bonus Plan, under which eligible senior managers can elect to receive up to 100% of their 2020 annual performance bonus in shares of common stock. The Company expects to issue shares for awards under the 2020 Equity Bonus Plan in 2021.

Share buyback

In February 2021, the Board approved a share buyback program, pursuant to which, the Board intends to carry out an on-market buyback of such number of its listed shares of common stock as are equal to US\$ 1,000,000. The purpose of the program is to mitigate future dilution resulting from share issuances under the Company's equity award programs. The Company estimates that the program will be fulfilled by the end of 2021.

Annual General Meeting

The Annual General Meeting of Stockholders (the "AGM") of the Company will be held at 14530 Global Parkway, Fort Myers, FL 33913 USA on June 15, 2021 at 9:00 am local time. The notice of the AGM shall be released with the Annual Report and shall include instructions for remote participation. Stockholders on record at the close of business on April 19, 2021 will be entitled to receive notice of, and vote at, the AGM.

NOTES

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FSC LOGO TO
GO HERE

Registered and Head Office

SOMERO ENTERPRISES, INC.

Somero Enterprises, Inc
14530 Global Parkway,
Fort Myers, Florida 33913
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