



# 2015 Annual Results

June 6, 2016

# Financial Highlights

## An exceptional year of profitable growth

- Revenue ahead of market expectations reflecting strong demand across product portfolio:
  - Total revenue increased by 18% to US\$ 70.2m (2014: US\$ 59.3m)
- Efficient conversion of revenue growth into profit:
  - Adjusted EBITDA increased 34% to US\$ 20.0m (2014: US\$ 15.0m)<sup>(1,2)</sup>
  - Adjusted EBITDA margin grew to 29% (2014: 25%) driven by gross margin expansion and effective operating cost controls
  - Pre-tax income increased 40% to US\$ 17.4m (2014: US\$ 12.4m)
  - Adjusted Net Income grew 28% to US\$ 13.0m (2014: US\$ 10.1m)<sup>(3)</sup>
  - Basic adjusted net income per share grew 28% to US\$ 0.23 (2014: US\$ 0.18)<sup>(3)</sup>
- Strong growth in operating cash flows:
  - Net cash from operating activities increased by 18% to US\$14.5m
- Balance sheet continues to strengthen:
  - Increased net cash at December 31, 2015 of US\$ 12.6m<sup>(4)</sup> a US\$ 6.0m increase over 2014
  - Post period close, successfully negotiated five year extension to secured revolving line of credit
- Healthy dividend increase:
  - Final dividend of 5.0 US cents per share. Total 2015 dividend of 6.9 US cents per share; a 25% increase over last year

# Business Highlights

- Internally funded investments to increase business scale:
  - 20,000 sq. ft. expansion of Houghton, Michigan assembly operations facility in 2015
  - Construction underway on 14,000 sq. ft. new global headquarters in Fort Myers, Florida
- New products continue to be a significant driver of growth:
  - S-485 Laser Screed® machine revenues were US\$ 3.9m in 2015
  - New product pipeline continues with introduction of the Somero Floor Levelness System® and S-10A Laser Screed® machine in late 2015, S-940 Laser Screed® machine in early 2016 at the World of Concrete in Las Vegas
- Balanced product line and geographic growth:
  - Large line, small line and 3-D Profiler System® revenues grew 26%, 40%, and 19%, respectively
  - Revenue growth led by North America, Europe and the Middle East, which grew a combined US\$ 16.0m compared to prior year
  - China remains a key target for future revenue growth

# Geographic Sales Detail

US\$ MILLIONS	2015	2014	CHANGE \$	CHANGE %
North America	\$ 49.2	\$ 37.2	\$ 12.0	32%
EMEA (Europe)	5.7	3.6	2.1	58%
ROW (Korea)	1.0	0.6	0.4	67%
ROW (Latin America)	2.0	2.6	(0.6)	-23%
EMEA (India)	0.6	0.6	-	-
ROW (Australia)	1.0	2.4	(1.4)	-58%
ROW (Southeast Asia)	1.3	0.7	0.6	86%
ROW (China)	6.1	9.5	(3.4)	-36%
EMEA (Middle East)	2.7	0.8	1.9	238%
EMEA (Scandinavia)	0.5	0.6	(0.1)	-17%
EMEA (Russia)	<u>0.1</u>	<u>0.7</u>	<u>(0.6)</u>	<u>-86%</u>
TOTAL	\$ 70.2	\$ 59.3	\$ 10.9	18%

# China Growth Drivers

- Demand for quality floors
- Measuring System (FF/FL) numbers introduced/accepted
- Customer Support, operator training, jobsite consulting, product demonstrations
- New product launches
- Key employees (sales, sales engineers, technical support)
- Marketing
- Availability of financing

***Proven drivers of US & European growth are the “roadmap” for growth in China.***



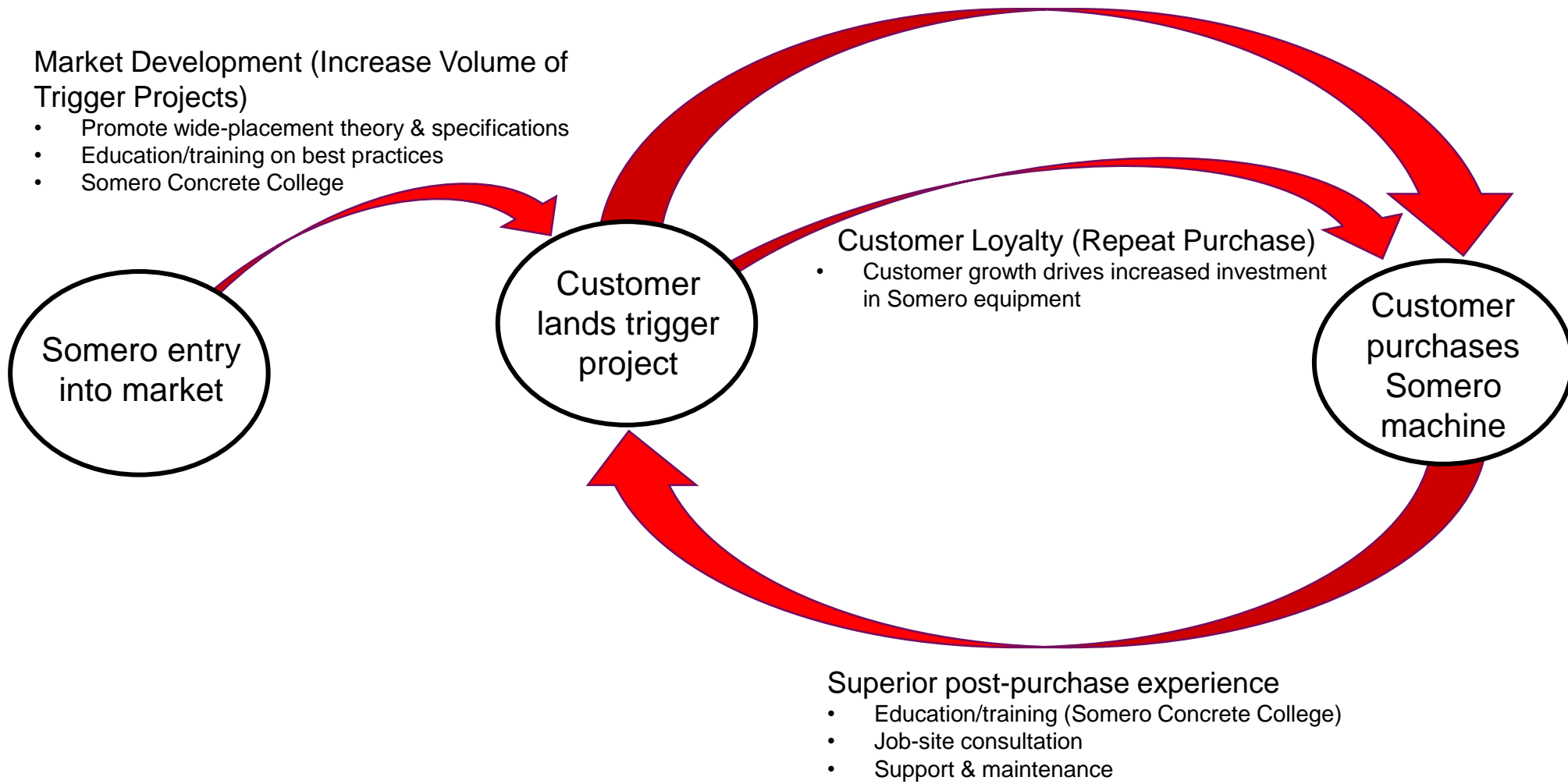
# China Growth Strategy

## Market Development (Increase Volume of Trigger Projects)

- Promote wide-placement theory & specifications
- Education/training on best practices
- Somero Concrete College

## Evaluation/Selling Process

- Direct sales force
- Product line simplification tailored to market
- Product demonstrations/Trade-Shows
- Somero Concrete College
- Long-Term Financing Program



# China Customer Case Study

## Shenyang Nester

- Flooring material applicator prior to purchasing their first Somero laser screed machine
- Nester's goal was to self perform and install concrete floors using their own staff
- Somero provided training, education on wide-placement best practices, and on-site consultation to Nester employees
- In May 2014, Nester purchased their first machine, an S-840.
- Since then, Nester has purchased 4 additional machines including:
  - An S-240 (large line boomed machine) and an STS-11M (spreader) in May 2015
  - An STS-11M at the end of 2015
  - An S-22E in March 2016
- To date, Nester has purchased over US\$ 2m in Somero equipment.
- Nester is now Somero's largest Chinese customer with 80 employees placing 500,000m<sup>2</sup> in concrete flooring per year
- Nester is one of China's most professional flooring contractors completing numerous projects for multinational corporations



*May 8, 2016 Shenyang Nester Mega Demo  
GLP Prologis Warehouse  
Jiaozhou, Qingdao, Shandong Province*

# Product Sales Detail

US\$ MILLIONS	2015	2014	CHANGE \$	CHANGE %
Large line <sup>(1)</sup>	\$ 28.3	\$ 22.4	\$ 5.9	26%
Mid line <sup>(2)</sup>	5.7	5.9	(0.2)	-3%
Small line <sup>(3)</sup>	13.6	9.7	3.9	40%
Remanufactured	6.3	6.5	(0.2)	-3%
3-D Profiler System	4.4	3.7	0.7	19%
Other <sup>(4)</sup>	<u>11.9</u>	<u>11.1</u>	<u>0.8</u>	<u>7%</u>
<b>TOTAL</b>	<b>\$ 70.2</b>	<b>\$ 59.3</b>	<b>\$ 10.9</b>	<b>18%</b>

## Notes:

- (1) All S-22es
- (2) Includes S-15 and S-10A
- (3) Includes S-840, S-485 and Copperhead
- (4) Includes US\$ 7.9m and US\$ 6.8m in parts and accessories for 2015 and 2014 respectively, as well as services revenue, freight, STS-11m sales, and other miscellaneous items.



# Statements of Operations

US\$ IN MILLIONS	YEAR ENDED DECEMBER 31, 2015	YEAR ENDED DECEMBER 31, 2014
<b>Revenue</b>	<b>\$ 70.2</b>	<b>\$ 59.3</b>
Cost of Sales	<u>31.0</u>	<u>27.3</u>
<b>Gross Profit</b>	<b>39.2</b>	<b>32.0</b>
Operating Expenses:		
Selling	7.5	7.1
Engineering	1.0	1.2
General and Administrative	<u>13.1</u>	<u>11.1</u>
Total Operating Expenses	<u>21.6</u>	<u>19.4</u>
<b>Operating Income</b>	<b>17.6</b>	<b>12.6</b>
Other Income (Expense)	<u>(0.2)</u>	<u>(0.2)</u>
<b>Income before income taxes</b>	<b>17.4</b>	<b>12.4</b>
Provision(Benefit) for Income Taxes	<u>5.8</u>	<u>(2.1)</u>
<b>Net Income</b>	<b><u>\$ 11.6</u></b>	<b><u>\$ 14.5</u></b>
Other Data:		
Adjusted EBITDA <sup>(1,2,4)</sup>	20.0	15.0
Adjusted Net Income <sup>(1,3,4)</sup>	13.0	10.1
Depreciation Expense	0.7	0.6
Amortization Expense	1.5	1.5
Capital Expenditures	4.2	1.2

## Highlights:

- Gross margin increase to 55.8% from 54.0% in 2014
- Operating expenses increased due to higher commissions, personnel costs, and insurance
- 33.3% 2015 effective tax rate consistent with go-forward expectations, 2014 included US\$ 5.9m in one-time tax benefits
- Adjusted Net Income (excluding impact of one-time 2014 tax benefits) increased 29% vs. 2014
- Capital expenditures increased by US\$ 3.0m due to spend on Houghton, Michigan expansion and new global headquarters in Florida

Note: 1,2,3,4 See annual results announcement for definition of terms.

# Adjusted Net Income and Adjusted Net Income per Share

US\$ MILLIONS (EXCEPT PER SHARE DATA)	YEAR ENDED DECEMBER 31, 2015	YEAR ENDED DECEMBER 31, 2014	CHANGE %
Net income	\$ 11.6	\$ 14.5	
Amortization	1.5	1.5	
Reversal of Deferred Tax Asset Valuation Allowance	-	(4.1)	
Tax impact of stock option and RSU settlements	<u>(0.1)</u>	<u>(1.8)</u>	
Adjusted net income	13.0	10.1	28%
Adjusted net income per share (diluted)	\$ 0.22	\$ 0.17	28%

# Balance Sheets

US\$ IN MILLIONS	AS OF DECEMBER 31, 2015	AS OF DECEMBER 31, 2014
Cash and equivalents	\$ 13.7	\$ 8.0
Accounts receivable, net	8.1	6.6
Inventory	8.5	8.4
Prepaid expenses and other assets	0.9	0.7
Deferred tax asset	<u>0.4</u>	<u>0.2</u>
Total current assets	31.6	23.8
Other assets	<u>16.8</u>	<u>15.4</u>
Total assets	<u>\$ 48.4</u>	<u>\$ 39.2</u>
Notes payable, current	\$ -	0.3
Accounts payable	3.7	4.1
Accrued expenses	4.3	2.9
Income tax payable	<u>1.0</u>	<u>-</u>
Total current liabilities	9.1	7.3
Other liabilities	<u>1.1</u>	<u>1.1</u>
Total liabilities	10.2	8.4
Stockholders' equity	<u>38.2</u>	<u>30.8</u>
Total liabilities and stockholders' equity	<u>\$ 48.4</u>	<u>\$ 39.2</u>

## Highlights:

- Cash and equivalents increased by US\$ 5.7m in 2015 despite US\$ 4.2m in capital expenditures and US\$ 3.3m in dividend payments.
- Increase in other assets due primarily to a US\$ 3.5m increase property, plant and equipment associated with investment in the Houghton and Fort Myers building projects, offset partly by US\$ 1.5m in 2015 amortization of intangibles.
- Total debt outstanding decreased by US\$ 0.3m in 2015 to end the year at US\$ 1.1m.

# Statements of Cash Flows

US\$ IN MILLIONS	YEAR ENDED DEC. 31, 2015	YEAR ENDED DEC. 31, 2014
Net income	\$ 11.6	\$ 14.5
Adjustments to reconcile to cash provided by operating activities:		
Deferred taxes	0.1	(3.3)
Depreciation & amortization	2.3	2.1
Stock based compensation and other	0.2	0.3
Working capital changes	<u>0.3</u>	<u>(1.3)</u>
Net cash provided by operating activities	<u>14.5</u>	<u>12.3</u>
Net cash used in investing activities	(4.2)	(1.2)
Payment of dividends	(3.3)	(1.6)
Stock options and RSUs settled for cash	(0.5)	(5.9)
Purchase of treasury stock	(0.2)	(0.3)
Repayment of notes payable	<u>(0.3)</u>	<u>(1.3)</u>
Net cash used in financing activities	(4.3)	(9.1)
Effect of exchange rates on cash	<u>(0.3)</u>	<u>(0.1)</u>
Increase in cash and equivalents	5.7	2.0
Beginning cash	<u>8.0</u>	<u>6.0</u>
Ending cash	<u>\$ 13.7</u>	<u>\$ 8.0</u>

## Highlights:

- Net cash provided by operating activities increased by US\$ 2.2m or 18% from 2014 driven by increased income before taxes and a reduction in incremental working capital investment.
- Net cash used by investing activities increased by US\$ 3.0m driven by investment for the Houghton facility expansion and the new global headquarters in Florida.
- Total dividend payments to shareholders increased by US\$1.7m reflecting the final 2014 dividend of US 4.0 cents a share paid in May 2015 and the interim 2015 dividend of US 1.9 cents a share paid in October 2015.

## Current Trading and 2016 Outlook

In its annual results announcement on 1 March 2016, Somero indicated healthy trading momentum in the US had carried forward into 2016 driven by demand for replacement equipment, fleet additions, technology upgrades, and new products. Somero is pleased to report that overall business is progressing well in 2016 with positive trading in the Company's core US, European and Chinese markets. In the Latin America, Southeast Asia, Korea and Middle East territories, while year-to-date trading is somewhat below previous year levels, the Company remains encouraged by solid activity in these markets and expects improvement over the rest of the year.

On a product basis, sales of our new products, the S-10A and S-940, have been key contributors to growth, along with sales of the 3-D Profiler System<sup>®</sup>, S-15, and STS-11m. In addition, driven by increased customer project activity, sales of parts and services have been particularly strong in 2016 to-date.

As previously announced, on 25 April 2016 Somero opened its new Global Headquarters and Training Facility, providing a state-of-the-art venue for product demonstration and customer training. With construction complete the Company expects capital expenditure in the second half of 2016 to revert to comparable historical levels.

This positive trading environment, together with margin improvement due to price increases and cost controls, and solid operating cash flow generation means the Company's overall results are tracking comfortably in-line with market expectations for the full year ending 31 December 2016.



# Strategic Plan Update



# Somero<sup>®</sup> Business Model

Somero is more than simply a seller of equipment. We're committed to making our customers successful in their businesses. We deliver on this promise through two key differentiators:

## 1. Industry expertise, service, training & support

Our deep, comprehensive industry expertise means we truly understand our customers' businesses. We provide customers reliable, timely support and valuable guidance on their projects, well beyond the use of our equipment on the jobsite.

## 2. Innovative Product Leadership

Our close customer relationships enable us to develop innovative new products that address their needs so they can produce higher quality floors, reduce manpower, increase their productivity and ultimately become more successful in their business.

### SOMERO

Manufacturers of laser-guided, technologically innovative machinery used in horizontal concrete placement and screeding

#### Key differentiators

Our technology enables placements to be completed faster, flatter and with fewer people.

Supported by:

- Industry expertise, service/support, training
- Innovative Product Leadership



### SOMERO CUSTOMERS

Small, medium and large concrete contractors and self-performing general contractors

### END USERS

Small to large domestic & multinational organizations:

- Warehousing
- Commercial
- Industrial
- Retail
- Schools

### MULTI-FACETED VALUE PROPOSITION

#### Key benefits

- ↗ Increases quality
- ↗ productivity
- ↗ and profit

#### Key outcomes

- ↗ Operational efficiency
- ↗ Improved physical appearance
- ↘ Lower maintenance cost
- ↘ Lower forklift repair cost



## A Clear Strategic Objective

In 2014, the Company outlined its strategic objective to double 2013 revenue of US\$ 45.1m by 2018.

In 2015, the Company made significant progress towards this goal, growing revenues by US\$ 10.9m, or 18% from the prior year to reach US\$ 70.2m.

With solid fundamentals in the US and European markets, and significant additional growth opportunities across our broad portfolio of products and geographic markets, we remain confident in our ability to achieve our strategic target in 2018.

US\$ MILLIONS	YEAR ENDED DECEMBER 31, 2015	GROWTH RATE
North America	\$ 25.5	100%
China	6.6	200%
Europe	3.0	200%
Remaining regions	<u>10.0</u>	<u>40%</u>
TOTAL	\$ 45.1	100%

# North America Update

## Market Dynamics

Strong recovery in equipment pricing and sales since recessionary low-point in 2010-11.

Non-residential construction fundamentals remain sound in the US; cement consumption from non-residential building construction increased 14% in 2015<sup>(1)</sup>.

## Growth Drivers

US non-residential building construction spend forecast to grow 5%-7% through 2019<sup>(2)</sup>.

Technology upgrades of aging fleet of installed equipment.

Fleet additions.

New product introductions.

Shortage of skilled labor in the concrete construction industry.

US\$ MILLIONS	2013	2014	2015
North America	\$25.5	\$37.2	\$49.2

## 2015 Highlights:

- Sales increased 32% due to higher large line sales and small line sales.
- Healthy increase in non-residential construction spending spurred customer demand for replacement machines, fleet additions, and technology upgrades.
- In addition, sales growth was also driven by new product introductions, price increases and a shortage of skilled labor in the US concrete construction industry.

### Notes:

- (1) Percentage derived from Portland Cement Association's Market Intelligence Fall Cement Outlook report dated November 2015.  
 (2) Estimates obtained from FMI Research Services Group 3Q 2015 Construction Outlook report.

# China Update

## Market Dynamics

Represents greatest opportunity for growth outside of North America.

Massive cement consumption. In 2015, estimated to represent 57.5% of total world consumption compared to 3.5% for North America<sup>(1)</sup>.

Growth opportunity is significant given very low current penetration.

Company does not believe 2015 growth slowdown in region materially impacts near-term opportunity.

US\$ MILLIONS	2013	2014	2015
China	\$6.6	\$9.5	\$6.1

## 2015 Highlights:

- Market was challenging but conditions stabilized in the second half of the year as we ended with US\$ 6.1m in sales.
- We remain encouraged by underlying market fundamentals and the long-term growth prospects in the region.
- Significant factor adversely impacting the market was a slowdown in money flow throughout the construction industry.
- Began offering long-term financing to customers in 4<sup>th</sup> quarter 2015 requiring installation of machine shut-off payment protection tool.
- Training/educational efforts promoted through Somero's Concrete College and sales engineering staff are increasing awareness, acceptance and demand for higher quality floors through wide-placement methods.
- Increasing wage rates, demand for more automation, and economic evolution towards logistics, big box retailing, and e-commerce will increase demands for the productivity and floor flatness provided by Somero equipment.

Notes:  
 (1) Percentages obtained from Portland Cement Association's Market Intelligence World Cement Consumption report dated August 2013.



# Europe Update

## Market Dynamics

Second largest installed base of Somero equipment.

Continued, steady improvement from the recessionary low-point in 2010-11.

Region appears to be at an earlier stage of recovery than North America.

## Growth Drivers

Continued recovery of the non-residential construction market across mainland Europe.

Technology upgrades of aging fleet of installed equipment.

Fleet additions.

New product introductions.

Shortage of skilled labor in the concrete contractor industry.

US\$ MILLIONS	2013	2014	2015
Europe	\$3.0	\$3.6	\$5.7

## 2015 Highlights:

- Continued positive trajectory with a solid year of growth in 2015. Sales increased 58% from 2014.
- Geographically, growth was broad based driven by improvements in the UK, Spain, Poland, Italy and Germany.
- On a product basis, growth was also broad-based with increases in large line, small line, remanufactured units, and 3-D Profiler System Profiler system sales.

# Rest of World

## Market Dynamics

Very low market penetration across the rest of world territories.

Most significant growth opportunity is India, with cement consumption second only to China. India cement consumption is forecast to represent 7.4% of world consumption in 2015, more than double North America<sup>(1)</sup>.

## Growth Drivers

Increased demand for higher quality concrete floors.

Broader domestic acceptance of wide-placement methods and US flatness and levelness floor specifications.

Shortages of skilled labor.

US\$ MILLIONS	2013	2014	2015
Rest of World	\$10.0	\$9.0	\$9.2

## 2015 Highlights:

- Southeast Asia sales increased to US\$ 1.3m in 2015 from US\$ 0.7m in 2014. Southeast Asia presents a significant growth opportunity in the coming years given our very low current market penetration and growing demand for higher quality floors in the region.
- Middle East sales grew to US\$ 2.7m from US\$ 0.8m in 2014, well ahead of expectations and driven by increased activity in Dubai, Turkey and Saudi Arabia.
- Australia sales decreased to US\$ 1.0m in 2015 from US\$ 2.4m in 2014 due primarily to the devaluation of the Australian dollar. If the devaluation continues, it will inhibit the growth opportunity in this territory in 2016.
- India 2015 sales were flat with 2014 at US\$ 0.6m. We remain in the initial phase of penetrating this significant market and will focus our efforts to promote the benefits of higher quality floors, increase our marketing activities, and drive concrete floor standards and specifications.

Notes:  
 (1) Percentages obtained from Portland Cement Association's Market Intelligence World Cement Consumption report dated August 2013.

# Why is this a Compelling Investment?

- Dominant market position
- Significant barriers to entry based on technology, education and global technical support
- Customer driven product development
- Highly knowledgeable and experienced senior management team
- Financial:
  - Superior Gross/EBITDA margins
  - Highly cash generative business
  - Strong, unleveraged balance sheet
  - Disciplined return of cash to shareholders through dividends
- Strategic plan to double revenue by 2018
- Solid growth and market dynamics in developed markets
- Strong potential for growth in emerging markets

# Thank you

Jack Cooney, CEO

+1 (0) 239 210 6500

[jcooney@somero.com](mailto:jcooney@somero.com)

[www.somero.com](http://www.somero.com)

Howard Hohmann, EVP Sales

+1 (0) 239 210 6500

[hhohmann@somero.com](mailto:hhohmann@somero.com)

[www.somero.com](http://www.somero.com)

John Yuncza, CFO

+1 (0) 239 210 6500

[jyuncza@somero.com](mailto:jyuncza@somero.com)

[www.somero.com](http://www.somero.com)