

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended: September 30, 2020

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 1-13429

**Simpson Manufacturing Co., Inc.**

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation  
or organization)

94-3196943

(I.R.S. Employer  
Identification No.)

5956 W. Las Positas Blvd., Pleasanton, CA 94588

(Address of principal executive offices, including zip code)

(925) 560-9000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

| Title of Each Class                      | Trading Symbol | Name of Each Exchange on Which Registered |
|------------------------------------------|----------------|-------------------------------------------|
| Common Stock, par value \$0.01 per share | SSD            | New York Stock Exchange                   |

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Securities registered pursuant to Section 12(b) of the Act:

The number of shares of the registrant's common stock outstanding as of November 2, 2020: 43,421,469.

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**Simpson Manufacturing Co., Inc. and Subsidiaries**

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements.

**Simpson Manufacturing Co., Inc. and Subsidiaries**  
**Condensed Consolidated Balance Sheets**  
*(In thousands, unaudited)*

|                                                     | September 30,       |                     | December 31,        |
|-----------------------------------------------------|---------------------|---------------------|---------------------|
|                                                     | 2020                | 2019                | 2019                |
| <b>ASSETS</b>                                       |                     |                     |                     |
| Current assets                                      |                     |                     |                     |
| Cash and cash equivalents                           | \$ 311,465          | \$ 194,061          | \$ 230,210          |
| Trade accounts receivable, net                      | 226,447             | 180,898             | 139,364             |
| Inventories                                         | 260,054             | 242,730             | 251,907             |
| Other current assets                                | 22,439              | 17,565              | 19,426              |
| Total current assets                                | 820,405             | 635,254             | 640,907             |
| Property, plant and equipment, net                  | 246,472             | 250,950             | 249,012             |
| Operating lease right-of-use assets                 | 41,453              | 34,463              | 35,436              |
| Goodwill                                            | 133,734             | 131,191             | 131,879             |
| Equity investment                                   | 2,475               | 2,485               | 2,480               |
| Intangible assets, net                              | 20,964              | 21,816              | 25,071              |
| Other noncurrent assets                             | 12,362              | 10,149              | 10,581              |
| Total assets                                        | <u>\$ 1,277,865</u> | <u>\$ 1,086,308</u> | <u>\$ 1,095,366</u> |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>         |                     |                     |                     |
| Current liabilities                                 |                     |                     |                     |
| Trade accounts payable                              | \$ 42,271           | \$ 40,861           | \$ 33,351           |
| Accrued liabilities and other current liabilities   | 148,890             | 125,006             | 125,556             |
| Total current liabilities                           | 191,161             | 165,867             | 158,907             |
| Operating lease liabilities                         | 33,354              | 27,256              | 27,930              |
| Long term debt, net of current portion              | 75,000              | —                   | —                   |
| Deferred income tax and other long-term liabilities | 17,550              | 16,238              | 16,572              |
| Total liabilities                                   | 317,065             | 209,361             | 203,409             |
| Commitments and contingencies (see Note 12)         |                     |                     |                     |
| Stockholders' equity                                |                     |                     |                     |
| Common stock, at par value                          | 444                 | 446                 | 442                 |
| Additional paid-in capital                          | 281,134             | 278,898             | 280,216             |
| Retained earnings                                   | 772,851             | 649,053             | 645,507             |
| Treasury stock                                      | (72,058)            | (21,437)            | (9,379)             |
| Accumulated other comprehensive loss                | (21,571)            | (30,013)            | (24,829)            |
| Total stockholders' equity                          | 960,800             | 876,947             | 891,957             |
| Total liabilities and stockholders' equity          | <u>\$ 1,277,865</u> | <u>\$ 1,086,308</u> | <u>\$ 1,095,366</u> |

The accompanying notes are an integral part of these condensed consolidated financial statements

**Simpson Manufacturing Co., Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Earnings and Comprehensive Income**  
*(In thousands except per-share amounts, unaudited)*

|                                                | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|------------------------------------------------|---------------------------------------------|-------------|--------------------------------------------|-------------|
|                                                | <b>2020</b>                                 | <b>2019</b> | <b>2020</b>                                | <b>2019</b> |
| Net sales                                      | \$ 364,304                                  | \$ 309,932  | \$ 974,048                                 | \$ 874,029  |
| Cost of sales                                  | 191,061                                     | 172,288     | 521,339                                    | 491,952     |
| Gross profit                                   | 173,243                                     | 137,644     | 452,709                                    | 382,077     |
| Operating expenses:                            |                                             |             |                                            |             |
| Research and development and other engineering | 12,287                                      | 11,972      | 37,860                                     | 35,287      |
| Selling                                        | 29,396                                      | 27,672      | 84,757                                     | 84,471      |
| General and administrative                     | 40,289                                      | 37,047      | 117,396                                    | 117,941     |
| Total operating expenses                       | 81,972                                      | 76,691      | 240,013                                    | 237,699     |
| Net gain on disposal of assets                 | (72)                                        | (14)        | (209)                                      | (265)       |
| Income from operations                         | 91,343                                      | 60,967      | 212,905                                    | 144,643     |
| Interest expense, net and other                | (518)                                       | (1,778)     | (3,202)                                    | (2,394)     |
| Income before taxes                            | 90,825                                      | 59,189      | 209,703                                    | 142,249     |
| Provision for income taxes                     | 23,768                                      | 15,503      | 52,341                                     | 36,324      |
| Net income                                     | \$ 67,057                                   | \$ 43,686   | \$ 157,362                                 | \$ 105,925  |
| Other comprehensive income                     |                                             |             |                                            |             |
| Translation adjustment                         | 6,238                                       | 5,797       | 3,170                                      | 5,825       |
| Unamortized pension adjustments                | 28                                          | (362)       | 88                                         | (462)       |
| Comprehensive net income                       | \$ 73,323                                   | \$ 49,121   | \$ 160,620                                 | \$ 111,288  |
| Net income per common share:                   |                                             |             |                                            |             |
| Basic                                          | \$ 1.54                                     | \$ 0.98     | \$ 3.60                                    | \$ 2.37     |
| Diluted                                        | \$ 1.54                                     | \$ 0.97     | \$ 3.59                                    | \$ 2.35     |
| Number of shares outstanding                   |                                             |             |                                            |             |
| Basic                                          | 43,474                                      | 44,477      | 43,683                                     | 44,673      |
| Diluted                                        | 43,683                                      | 44,814      | 43,873                                     | 44,995      |
| Cash dividends declared per common share       | \$ 0.23                                     | \$ 0.23     | \$ 0.69                                    | \$ 0.68     |

The accompanying notes are an integral part of these condensed consolidated financial statements

**Simpson Manufacturing Co., Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Stockholders' Equity**  
*(In thousands except per-share data)*

**Three Months Ended September 30, 2020 and 2019 (unaudited)**

|                                                              | Common Stock |           | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated Other<br>Comprehensive<br>Income (Loss) | Treasury<br>Stock | Total      |
|--------------------------------------------------------------|--------------|-----------|----------------------------------|----------------------|-----------------------------------------------------|-------------------|------------|
|                                                              | Shares       | Par Value |                                  |                      |                                                     |                   |            |
| Balance at June 30, 2020                                     | 43,473       | \$ 444    | \$ 277,625                       | \$ 716,038           | \$ (27,837)                                         | \$ (72,058)       | \$ 894,212 |
| Net income                                                   | —            | —         | —                                | 67,057               | —                                                   | —                 | 67,057     |
| Translation adjustment, net of tax                           | —            | —         | —                                | —                    | 6,238                                               | —                 | 6,238      |
| Pension adjustment and other,<br>net of tax                  | —            | —         | —                                | —                    | 28                                                  | —                 | 28         |
| Stock-based compensation                                     | —            | —         | 3,651                            | —                    | —                                                   | —                 | 3,651      |
| Shares issued from release of Restricted Stock<br>Units      | 3            | —         | (162)                            | —                    | —                                                   | —                 | (162)      |
| Cash dividends declared on common stock, \$0.23<br>per share | —            | —         | —                                | (10,244)             | —                                                   | —                 | (10,244)   |
| Common stock issued at \$99.63 per share for stock<br>bonus  | —            | \$ —      | 20                               | —                    | —                                                   | —                 | 20         |
| Balance at September 30, 2020                                | 43,476       | \$ 444    | \$ 281,134                       | \$ 772,851           | \$ (21,571)                                         | \$ (72,058)       | \$ 960,800 |
| Balance at June 30, 2019                                     | 44,675       | \$ 446    | \$ 277,024                       | \$ 615,529           | \$ (24,578)                                         | \$ —              | \$ 868,421 |
| Net income                                                   | —            | —         | —                                | 43,686               | —                                                   | —                 | 43,686     |
| Translation adjustment and other,<br>net of tax              | —            | —         | —                                | —                    | (5,797)                                             | —                 | (5,797)    |
| Pension adjustment, net of tax                               | —            | —         | —                                | —                    | 362                                                 | —                 | 362        |
| Stock-based compensation                                     | —            | —         | 1,880                            | —                    | —                                                   | —                 | 1,880      |
| Shares issued from release of Restricted Stock<br>Units      | 1            | —         | (6)                              | —                    | —                                                   | —                 | (6)        |
| Repurchase of common stock                                   | (349)        | —         | —                                | —                    | —                                                   | (21,437)          | (21,437)   |
| Cash dividends declared on common stock, \$0.23<br>per share | —            | —         | —                                | (10,162)             | —                                                   | —                 | (10,162)   |
| Balance, at September 30, 2019                               | 44,327       | \$ 446    | \$ 278,898                       | \$ 649,053           | \$ (30,013)                                         | \$ (21,437)       | \$ 876,947 |

The accompanying notes are an integral part of these condensed consolidated financial statements

**Simpson Manufacturing Co., Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Stockholders' Equity**  
*(In thousands except per-share data)*

**Nine Months Ended September 30, 2020 and 2019 (unaudited)**

|                                                           | <b>Common Stock</b> |                  | <b>Additional</b>          | <b>Retained</b> | <b>Accumulated Other</b>               | <b>Treasury</b> | <b>Total</b> |
|-----------------------------------------------------------|---------------------|------------------|----------------------------|-----------------|----------------------------------------|-----------------|--------------|
|                                                           | <b>Shares</b>       | <b>Par Value</b> | <b>Paid-in<br/>Capital</b> | <b>Earnings</b> | <b>Comprehensive<br/>Income (Loss)</b> | <b>Stock</b>    |              |
| Balance at December 31, 2019                              | 44,209              | \$ 442           | \$ 280,216                 | \$ 645,507      | \$ (24,829)                            | \$ (9,379)      | \$ 891,957   |
| Net income                                                | —                   | —                | —                          | 157,362         | —                                      | —               | 157,362      |
| Translation adjustment, net of tax                        | —                   | —                | —                          | —               | 3,170                                  | —               | 3,170        |
| Pension adjustment and other, net of tax                  | —                   | —                | —                          | —               | 88                                     | —               | 88           |
| Stock-based compensation                                  | —                   | —                | 8,481                      | —               | —                                      | —               | 8,481        |
| Shares issued from release of Restricted Stock Units      | 165                 | 2                | (7,905)                    | —               | —                                      | —               | (7,903)      |
| Repurchase of common stock                                | (902)               | —                | —                          | —               | —                                      | (62,679)        | (62,679)     |
| Cash dividends declared on common stock, \$0.69 per share | —                   | —                | —                          | (30,018)        | —                                      | —               | (30,018)     |
| Common stock issued at \$81.30 per share for stock bonus  | 4                   | —                | 342                        | —               | —                                      | —               | 342          |
| Balance at September 30, 2020                             | 43,476              | \$ 444           | \$ 281,134                 | \$ 772,851      | \$ (21,571)                            | \$ (72,058)     | \$ 960,800   |
| Balance at December 31, 2018                              | 44,998              | \$ 453           | \$ 276,504                 | \$ 628,207      | \$ (24,650)                            | \$ (25,000)     | \$ 855,514   |
| Net income                                                | —                   | —                | —                          | 105,925         | —                                      | —               | 105,925      |
| Translation adjustment, net of tax                        | —                   | —                | —                          | —               | (5,825)                                | —               | (5,825)      |
| Pension adjustment and other, net of tax                  | —                   | —                | —                          | —               | 462                                    | —               | 462          |
| Stock-based compensation                                  | —                   | —                | 8,007                      | —               | —                                      | —               | 8,007        |
| Shares issued from release of Restricted Stock Units      | 178                 | 2                | (5,905)                    | —               | —                                      | —               | (5,903)      |
| Repurchase of common stock                                | (854)               | —                | —                          | —               | —                                      | (51,437)        | (51,437)     |
| Retirement of treasury stock                              | —                   | (9)              | —                          | (54,991)        | —                                      | 55,000          | —            |
| Cash dividends declared on common stock, \$0.68 per share | —                   | —                | —                          | (30,088)        | —                                      | —               | (30,088)     |
| Common stock issued at \$54.31 per share for stock bonus  | 5                   | —                | 292                        | —               | —                                      | —               | 292          |
| Balance, at September 30, 2019                            | 44,327              | \$ 446           | \$ 278,898                 | \$ 649,053      | \$ (30,013)                            | \$ (21,437)     | \$ 876,947   |

The accompanying notes are an integral part of these condensed consolidated financial statements

**Simpson Manufacturing Co., Inc. and Subsidiaries**  
**Condensed Consolidated Statements of Cash Flows**  
*(In thousands, unaudited)*

|                                                                                   | <b>Nine Months Ended</b> |             |
|-----------------------------------------------------------------------------------|--------------------------|-------------|
|                                                                                   | <b>September 30,</b>     |             |
|                                                                                   | <b>2020</b>              | <b>2019</b> |
| <b>Cash flows from operating activities</b>                                       |                          |             |
| Net income                                                                        | \$ 157,362               | \$ 105,925  |
| Adjustments to reconcile net income to net cash provided by operating activities: |                          |             |
| Gain on sale of assets and other                                                  | (204)                    | (263)       |
| Depreciation and amortization                                                     | 30,088                   | 29,044      |
| Noncash lease expense                                                             | 6,246                    | 5,278       |
| Deferred income taxes and other long-term liabilities                             | 1,852                    | 2,262       |
| Noncash compensation related to stock plans                                       | 9,459                    | 8,699       |
| Provision of doubtful accounts                                                    | 23                       | 435         |
| Changes in operating assets and liabilities:                                      |                          |             |
| Trade accounts receivable                                                         | (87,170)                 | (36,385)    |
| Inventories                                                                       | (7,199)                  | 31,163      |
| Trade accounts payable                                                            | 7,825                    | 8,130       |
| Other current assets                                                              | (618)                    | (3,197)     |
| Accrued liabilities and other current liabilities                                 | 21,762                   | 3,452       |
| Other noncurrent assets and liabilities                                           | (9,808)                  | (5,308)     |
| Net cash provided by operating activities                                         | 129,618                  | 149,235     |
| <b>Cash flows from investing activities</b>                                       |                          |             |
| Capital expenditures                                                              | (20,879)                 | (24,495)    |
| Asset acquisitions, net of cash acquired                                          | (1,425)                  | (3,529)     |
| Proceeds from sale of property and equipment                                      | 750                      | 2,498       |
| Net cash used in investing activities                                             | (21,554)                 | (25,526)    |
| <b>Cash flows from financing activities</b>                                       |                          |             |
| Repurchase of common stock                                                        | (62,679)                 | (51,437)    |
| Proceeds from lines of credit                                                     | 164,330                  | 13,308      |
| Repayments of lines of credit and capital leases                                  | (89,347)                 | (14,335)    |
| Debt issuance costs                                                               | (712)                    | —           |
| Dividends paid                                                                    | (30,164)                 | (30,002)    |
| Cash paid on behalf of employees for shares withheld                              | (7,581)                  | (5,905)     |
| Net cash used by in financing activities                                          | (26,153)                 | (88,371)    |
| Effect of exchange rate changes on cash and cash equivalents                      | (656)                    | (1,457)     |
| Net increase in cash and cash equivalents                                         | 81,255                   | 33,881      |
| Cash and cash equivalents at beginning of period                                  | 230,210                  | 160,180     |
| Cash and cash equivalents at end of period                                        | \$ 311,465               | \$ 194,061  |
| <b>Noncash activity during the period</b>                                         |                          |             |
| Noncash capital expenditures                                                      | \$ 778                   | \$ 194      |
| Dividends declared but not paid                                                   | 10,000                   | 10,162      |
| Issuance of Company's common stock for compensation                               | 342                      | 292         |

The accompanying notes are an integral part of these condensed consolidated financial statements

## **Notes to Condensed Consolidated Financial Statements (Unaudited)**

### **1. Basis of Presentation**

#### *Principles of Consolidation*

The accompanying condensed consolidated financial statements include the accounts of Simpson Manufacturing Co., Inc. and its subsidiaries (collectively, the "Company"). Investments in 50% or less owned entities are accounted for using either cost or the equity method. All significant intercompany transactions have been eliminated.

#### *Use of Estimates*

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Management believes that these consolidated financial statements include all normal and recurring adjustments necessary for a fair presentation under GAAP. Uncertainty created by the COVID-19 pandemic will likely impact our operations, customers, and various areas of risk. We assessed certain accounting matters that require the use of estimates and assumptions in context with the known and projected future impacts of COVID-19. The Company's actual results could differ materially from those estimates.

#### *Interim Reporting Period*

The accompanying unaudited quarterly condensed consolidated financial statements have been prepared pursuant to the rules and regulations for reporting on Form 10-Q. Accordingly, certain information and footnotes required by GAAP have been condensed or omitted. These interim statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2019 (the "2019 Form 10-K").

The unaudited quarterly condensed consolidated financial statements have been prepared on the same basis as the audited annual consolidated financial statements and, in the opinion of management, contain all adjustments (consisting of only normal recurring adjustments) necessary to state fairly the financial information set forth therein in accordance with GAAP. Certain prior period amounts in the condensed consolidated financial statements and the accompanying notes have been reclassified to conform to the current period's presentation. The year-end condensed consolidated balance sheet data provided herein were derived from audited financial statements included in the 2019 Form 10-K, but do not include all disclosures required by GAAP. The Company's quarterly results fluctuate. As a result, the Company believes the results of operations for this interim period presented are not indicative of the results to be expected for any future periods.

#### *Revenue Recognition*

Generally, the Company's revenue contract with a customer exists when goods are shipped, and services (if any) are rendered; and its related invoice is generated. The duration of the contract does not extend beyond the promised goods or services already transferred. The transaction price of each distinct promised product or service specified in the invoice is based on its relative standalone selling price. The Company recognizes revenue when it satisfies a performance obligation by transferring control over a product to a customer at a point in time or as the services are completed. The Company's shipping terms provide the primary indicator of the transfer of control. The Company's general shipping terms are F.O.B. shipping point, where title and risk and rewards of ownership transfer at the point when the products leave the Company's warehouse. The Company recognizes revenue based on the consideration specified in the invoice with a customer, less any sales incentives, discounts, and amounts collected on behalf of third parties (i.e., governmental tax authorities). Based on historical experience with the customer, the customer's purchasing pattern and its significant experience selling products, the Company concluded that a significant reversal in the cumulative amount of revenue recognized will not occur when the uncertainty (if any) is resolved (that is, when the total amount of purchases is known). Refer to Note 2 for additional information.

### *Net Income Per Common Share*

The Company calculates net income per common share based on the weighted-average number of the Company's common stock outstanding during the period. Potentially dilutive securities are included in the diluted per-share calculations using the treasury stock method for all periods when the effect is dilutive.

### *Accounting for Leases*

The Company has operating and finance leases for certain facilities, equipment, autos and data centers. As an accounting policy for short-term leases, the Company elected to not recognize the right-of-use asset and liability, if, at the commencement date, the lease (1) has a term of 12 months or less and (2) does not include renewal and purchase options that the Company is reasonably certain to exercise. Monthly payments on short-term leases are recognized on the straight-line basis over the full lease term.

### *Accounting for Stock-Based Compensation*

The Company recognizes stock-based expense related to restricted stock unit awards on a straight-line basis, net of estimated forfeitures, over the requisite service period of the awards, which is generally a vesting term of four years. Stock-based expense related to performance share grants are measured based on the grant date fair value and expensed on a graded basis over the service periods of the awards, which is generally a performance period of three years. The performance conditions are based on the Company's achievement of revenue growth and return on invested capital over the performance period, and are evaluated for the probability of vesting at each reporting period end with changes in expected results recognized as an adjustment to expense. The assumptions used to calculate the fair value of options or restricted stock units are evaluated and revised, as necessary, to reflect market conditions and the Company's expectations.

### *Fair Value of Financial Instruments*

Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that is determined based on assumptions that market participants would use in pricing an asset or a liability. Assets and liabilities recorded at fair value are measured and classified under a three-tier fair valuation hierarchy based on the observability of the inputs available in the market: Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument; and Level 3 inputs are unobservable inputs based on the Company's assumptions used to measure assets and liabilities at fair value. The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The carrying amounts of trade accounts receivable, accounts payable, accrued liabilities and other current liabilities approximate fair value due to the short-term nature of these instruments. The fair value of the Company's contingent consideration related to acquisitions and equity investment are classified as Level 3 within the fair value hierarchy as it is based on unobserved inputs such as management estimates and entity-specific assumptions and is evaluated on an ongoing basis. The Company does not carry its long-term debt at fair value in its condensed consolidated balance sheets.

### *Derivative Instruments - Foreign Currency Contracts*

The Company transacts business in various foreign countries and may therefore be exposed to foreign currency exchange rate risk. The Company has established risk management programs to protect against volatility in the value of non-functional future cash flows caused by changes in foreign currency exchange rates and tries to maintain a partial or fully hedged position for certain transaction exposures when management considers appropriate. The Company enters into short-term foreign currency derivatives contracts, namely forward contracts, to hedge only those currency exposures associated with cash flows denominated in non-functional currencies. Gains and losses on the Company's derivative contracts are designed to offset losses and gains on the transactions hedged, and accordingly, generally do not subject the Company to risk of significant accounting losses. The Company hedges committed exposures and does not engage in speculative transactions. The credit risk of these derivative contracts is minimized since the contracts are with a large financial institution and accordingly, fair value adjustments related to the credit risk of the counterparty financial institution are not material.

The Company sources certain materials for its concrete products from a wholly owned subsidiary in China, and as a result is exposed to variability in cash outflows associated with changes in the foreign exchange rate between the United States Dollar

and the Chinese Yuan (CNY). As of September 30, 2020, the aggregate notional amount of the Company's outstanding foreign currency derivative contracts was to buy CNY 70.3 million by selling \$10.1 million throughout fiscal 2021. These forward contracts are accounted for as cash flow hedges under the accounting standards, and fair value is included in other current assets or other current liabilities, as applicable, in the condensed consolidated balance sheets. Net deferred gains and losses on these contracts relating to changes in fair value are included in accumulated other comprehensive loss, a component of shareholders' equity in the condensed consolidated balance sheets, and are reclassified into the line item in the condensed consolidated statement of income in the which the hedged items are recorded in the same period the hedged item affects earnings. Changes in fair value of any forward contracts that are determined to be ineffective are immediately reclassified from other comprehensive income ("OCI") into earnings.

The fair value of these foreign currency forward contracts, calculated based on Level 1 inputs, was not material as of September 30, 2020, and amounts deferred in OCI are expected to be recognized as a component of cost of sales in the consolidated statement of operations primarily during 2021. There were no amounts recognized due to ineffectiveness during the three and nine-months ended September 30, 2020

#### *Cash and Cash Equivalents*

The Company classifies other investments that are highly liquid and have maturities of three months or less at the date of purchase as cash equivalents. As of September 30, 2020 and 2019, the Company's investments consisted mainly of United States Treasury securities and money market funds, included in cash equivalents which are the Company's primary financial instruments and carried at cost, approximating fair value, based on Level 1 inputs. The balance of the Company's primary financial instruments as of September 30, 2020 and 2019 was \$46.4 million and \$0.1 million, respectively.

#### *Income Taxes*

The Company uses an estimated annual tax rate to measure the tax benefit or tax expense recognized in each interim period.

#### *Accounting Standards - Recently Adopted*

In June 2016, the FASB issued ASU No. 2016-13, "*Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.*" ASU 2016-13 amendments provide guidance on accounting for current expected credit losses on financial instruments that are not accounted for at fair value through net income, including loans held for investment, held-to-maturity debt securities, trade and other receivables, net investment in leases and other commitments to extend credit held by a reporting entity at each reporting date. The required measurement methodology is based on an expected loss model that includes historical experience, current conditions, and reasonable and supportable forecasts. ASU 2016-13 eliminates the probable incurred loss recognition in current GAAP. The Company adopted ASU 2016-13 prospectively on January 1, 2020. Historically, the Company's actual credit losses have not been material. The Company's financial assets in the scope of ASU 2016-13 mainly consist of short-term trade receivables. In estimating expected credit loss, we are using the aging method, such as pooling receivables based on the levels of delinquency and applying historical loss rates, adjusted for current conditions and reasonable and supportable forecasts, to each pool. The Company will regularly reassess the customer groups by using its best judgment when considering changes in customers' credit ratings, customers' historical payments and loss experience, current market and economic conditions, and the Company's expectations of future market and economic conditions. Adoption of ASU 2016-13 had no material effect on the Company's consolidated financial statements and footnote disclosures.

All other issued and effective accounting standards during the third quarter of 2020 were determined to be not relevant or material to the Company.

## **2. Revenue from Contracts with Customers**

#### ***Disaggregated revenue***

The Company disaggregates net sales into the following major product groups as described in the footnote for segment information included in these interim financial statements under Note 13.

***Wood Construction Products Revenue.*** Wood construction products represented 86% and 84% of total net sales in the nine months ended September 30, 2020 and 2019, respectively.

**Concrete Construction Products Revenue.** Concrete construction products represented 14% and 16% of total net sales in the nine months ended September 30, 2020 and 2019, respectively.

**Customer acceptance criteria.** Generally, there are no customer acceptance criteria included in the Company's standard sales agreement with customers. When an arrangement with the customer does not meet the criteria to be accounted for as a revenue contract under the standard, the Company recognizes revenue in the amount of nonrefundable consideration received when the Company has transferred control of the goods or services and has stopped transferring (and has no obligation to transfer) additional goods or services. The Company offers certain customers discounts for paying invoices ahead of the due date, which are generally between 30 to 60 days after the issue date.

**Other revenue.** Service sales, representing after-market repair and maintenance, engineering activities and software license sales and services were less than 1.0% of net sales and recognized as the services are completed or by transferring control over a product to a customer at a point in time. Services may be sold separately or in bundled packages. The typical contract length for a service is generally less than one year. For bundled packages, the Company accounts for individual services separately when they are distinct within the context of the contract. A distinct service is separately identifiable from other items in the bundled package if a customer can benefit from the service on its own or with other resources that are readily available to the customer. The consideration (including any discounts) is allocated between separate services in a bundle based on their relative stand-alone selling prices. The stand-alone selling prices are determined based on the prices at which the Company separately sells the services.

### **Reconciliation of contract balances**

Contract assets are the rights to consideration in exchange for goods or services that the Company has transferred to a customer when that right is conditional on something other than the passage of time. Contract liabilities are recorded for any services billed to customers and not yet recognizable if the contract period has commenced or for the amount collected from customers in advance of the contract period commencing. As of September 30, 2020, the Company had no contract assets or contract liabilities from contracts with customers.

### **3. Net Income Per Share**

The following table reconciles basic net income per share of the Company's common stock to diluted net income per share for the three and nine months ended September 30, 2020 and 2019, respectively:

|                                                                                | Three Months Ended |           | Nine Months Ended |            |
|--------------------------------------------------------------------------------|--------------------|-----------|-------------------|------------|
|                                                                                | September 30,      |           | September 30,     |            |
|                                                                                | 2020               | 2019      | 2020              | 2019       |
| <i>(in thousands, except per share amounts)</i>                                |                    |           |                   |            |
| Net income available to common stockholders                                    | \$ 67,057          | \$ 43,686 | \$ 157,362        | \$ 105,925 |
| Basic weighted-average shares outstanding                                      | 43,474             | 44,477    | 43,683            | 44,673     |
| Dilutive effect of potential common stock equivalents — restricted stock units | 209                | 337       | 190               | 322        |
| Diluted weighted-average shares outstanding                                    | 43,683             | 44,814    | 43,873            | 44,995     |
| Net income per common share:                                                   |                    |           |                   |            |
| Basic                                                                          | \$ 1.54            | \$ 0.98   | \$ 3.60           | \$ 2.37    |
| Diluted                                                                        | \$ 1.54            | \$ 0.97   | \$ 3.59           | \$ 2.35    |

### **4. Stockholders' Equity**

#### *Share Repurchases*

During the nine months ended September 30, 2020, the Company repurchased 902,340 shares of the Company's common stock in the open market at an average price of \$69.46 per share, for a total of \$62.7 million. As of September 30, 2020,

approximately \$37.3 million remains available for repurchase under the previously announced \$100.0 million share repurchase authorization (which expires at the end of 2020).

As of September 30, 2020, the Company held 1,020,328 shares of its common stock as treasury shares.

## 5. Stock-Based Compensation

The Company allocates stock-based compensation expense related to equity plans for employees and non-employee directors among the cost of sales, research and development and other engineering expense, selling expense, or general and administrative expense based on the job functions performed by the employees to whom the stock-based compensation is awarded. The Company recognized stock-based compensation expense related to its equity plans for employees of \$4.0 million and \$2.1 million for the three months ended September 30, 2020 and 2019, respectively, and \$9.5 million and \$8.7 million for the nine months ended September 30, 2020 and 2019, respectively.

During the nine months ended September 30, 2020, the Company granted 166,951 restricted stock units ("RSUs") to the Company's employees, including officers at an estimated weighted average fair value of \$74.91 per share based on the closing price (adjusted for the present value of dividends) of the Company's common stock on the grant date. The RSUs granted to the Company's employees may be performance-based and/or time-based. Certain performance-based RSUs are granted to officers and key employees, where the number of performance-based awards to be issued is based on the achievement of certain Company performance criteria established in the RSU agreement over a cumulative three-year period. These awards cliff vest after three years. In addition, these same officers and key employees also receive time-based RSUs, which vest pursuant to a three-year graded vesting schedule. Time-based RSUs that are granted to the Company's employees excluding officers and certain key employees, vest ratably over the four year vesting-term of the award.

The Company's seven non-employee directors are entitled to receive approximately \$690 thousand in equity compensation annually. The number of shares ultimately granted are based on the average closing share price for the Company over the 60 day period prior to approval of the award in April of each year. In April 2020, the Company granted 9,239 shares of common stock to the Company's non-employee directors, based on the average closing price of \$74.66 per share. The Company recognized expense on these shares at an estimated fair value of \$58.72 per share based on the closing price of the Company's common stock on the grant date, for a total expense of \$543 thousand.

As of September 30, 2020, the Company's aggregate unamortized stock compensation expense was approximately \$14.4 million, is expected to be recognized in expense over a weighted-average period of 2.3 years.

## 6. Trade Accounts Receivable, Net

Trade accounts receivable at the dates indicated consisted of the following:

| <i>(in thousands)</i>                     | At September 30,  |                   | At December 31,   |
|-------------------------------------------|-------------------|-------------------|-------------------|
|                                           | 2020              | 2019              | 2019              |
| Trade accounts receivable                 | \$ 231,559        | \$ 186,219        | \$ 144,729        |
| Allowance for doubtful accounts           | (2,032)           | (1,434)           | (1,935)           |
| Allowance for sales discounts and returns | (3,080)           | (3,887)           | (3,430)           |
|                                           | <u>\$ 226,447</u> | <u>\$ 180,898</u> | <u>\$ 139,364</u> |

## 7. Inventories

Inventories at the dates indicated consisted of the following:

| (in thousands)      | At September 30,  |                   | At December 31,   |
|---------------------|-------------------|-------------------|-------------------|
|                     | 2020              | 2019              | 2019              |
| Raw materials       | \$ 100,198        | \$ 91,088         | \$ 95,575         |
| In-process products | 21,533            | 24,554            | 23,672            |
| Finished products   | 138,323           | 127,088           | 132,660           |
|                     | <u>\$ 260,054</u> | <u>\$ 242,730</u> | <u>\$ 251,907</u> |

## 8. Property, Plant and Equipment, Net

Property, plant and equipment, net, at the dates indicated consisted of the following:

| (in thousands)                                 | At September 30,  |                   | At December 31,   |
|------------------------------------------------|-------------------|-------------------|-------------------|
|                                                | 2020              | 2019              | 2019              |
| Land                                           | \$ 28,287         | \$ 29,132         | \$ 28,092         |
| Buildings and site improvements                | 201,020           | 197,075           | 195,210           |
| Leasehold improvements                         | 5,699             | 4,909             | 4,911             |
| Machinery, equipment, and software             | 363,187           | 345,861           | 351,379           |
|                                                | 598,193           | 576,977           | 579,592           |
| Less accumulated depreciation and amortization | (369,655)         | (339,920)         | (346,594)         |
|                                                | 228,538           | 237,057           | 232,998           |
| Capital projects in progress                   | 17,934            | 13,893            | 16,014            |
|                                                | <u>\$ 246,472</u> | <u>\$ 250,950</u> | <u>\$ 249,012</u> |

## 9. Goodwill and Intangible Assets, Net

Goodwill at the dates indicated was as follows:

| (in thousands) | At September 30,  |                   | At December 31,   |
|----------------|-------------------|-------------------|-------------------|
|                | 2020              | 2019              | 2019              |
| North America  | \$ 96,161         | \$ 96,192         | \$ 96,244         |
| Europe         | 36,215            | 33,710            | 34,300            |
| Asia/Pacific   | 1,358             | 1,289             | 1,335             |
| Total          | <u>\$ 133,734</u> | <u>\$ 131,191</u> | <u>\$ 131,879</u> |

Intangible assets, net, at the dates indicated were as follows:

| (in thousands) | At September 30, 2020 |                          |                     |
|----------------|-----------------------|--------------------------|---------------------|
|                | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| North America  | \$ 33,755             | \$ (21,761)              | \$ 11,994           |
| Europe         | 25,930                | (16,960)                 | 8,970               |
| Total          | <u>\$ 59,685</u>      | <u>\$ (38,721)</u>       | <u>\$ 20,964</u>    |

|                       |    | At September 30, 2019 |                          |                     |
|-----------------------|----|-----------------------|--------------------------|---------------------|
|                       |    | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| <i>(in thousands)</i> |    |                       |                          |                     |
| North America         | \$ | 31,305                | \$ (18,461)              | \$ 12,844           |
| Europe                |    | 23,351                | (14,379)                 | 8,972               |
| Total                 | \$ | 54,656                | \$ (32,840)              | \$ 21,816           |

  

|                       |    | At December 31, 2019  |                          |                     |
|-----------------------|----|-----------------------|--------------------------|---------------------|
|                       |    | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| <i>(in thousands)</i> |    |                       |                          |                     |
| North America         | \$ | 33,756                | \$ (19,173)              | \$ 14,583           |
| Europe                |    | 25,500                | (15,012)                 | 10,488              |
| Total                 | \$ | 59,256                | \$ (34,185)              | \$ 25,071           |

Intangible assets consist of definite-lived and indefinite-lived assets. Definite-lived intangible assets include customer relationships, patents, unpatented technology, and non-compete agreements. Amortization expense of definite-lived intangible assets was \$1.7 million and \$1.4 million for the three months ended September 30, 2020 and 2019, respectively, and was \$4.5 million and \$4.1 million for the nine months ended September 30, 2020 and 2019, respectively. The weighted-average amortization period for all amortizable intangibles on a combined basis is 5.5 years.

The only indefinite-lived intangible asset, consisting of a trade name, totaled \$0.6 million at September 30, 2020.

At September 30, 2020, the estimated future amortization of definite-lived intangible assets was as follows:

|                                |                  |
|--------------------------------|------------------|
| <i>(in thousands)</i>          |                  |
| Remaining three months of 2020 | \$ 1,508         |
| 2021                           | 5,542            |
| 2022                           | 3,483            |
| 2023                           | 2,662            |
| 2024                           | 1,710            |
| 2025                           | 1,462            |
| Thereafter                     | 3,981            |
|                                | <u>\$ 20,348</u> |

The changes in the carrying amount of goodwill and intangible assets for the nine months ended September 30, 2020, were as follows:

|                               |    | Goodwill | Intangible Assets |
|-------------------------------|----|----------|-------------------|
| <i>(in thousands)</i>         |    |          |                   |
| Balance at December 31, 2019  | \$ | 131,879  | \$ 25,071         |
| Amortization                  |    | —        | (4,538)           |
| Foreign exchange              |    | 1,855    | 431               |
| Balance at September 30, 2020 | \$ | 133,734  | \$ 20,964         |

## 10. Leases

### *Operating Lease and Finance Obligations*

The Company has operating leases for certain facilities, equipment and autos. The existing operating leases expire at various dates through 2024, some of which include options to extend the leases for up to 5 years. The Company measured the lease liability at the present value of the lease payments to be made over the lease term. The lease payments are discounted using the Company's incremental borrowing rate. The Company measured the right-of-use assets ("ROU") assets at the amount at which the lease liability is recognized plus initial direct costs incurred or prepayment amounts. The ROU assets are amortized on a straight-line basis over the lease term.

### *Finance Lease Obligations*

The Company has finance leases for data centers and certain office equipment, which was recorded in fixed assets as capital lease obligations. These finance lease obligations are included in current liabilities and other long-term liabilities in the accompanying consolidated balance sheets. The interest rates for these two capital leases are 2.89% and 3.50%, respectively, and the two leases will mature in May 2021 and July 2021, respectively.

The following table provides a summary of leases included on the condensed consolidated balance sheets September 30, 2020, 2019 and December 31, 2019, condensed consolidated statements of earnings, and condensed consolidated statements of cash flows as of the three months and nine months ended September 30, 2020 and 2019:

| Condensed Consolidated Balance Sheets Line Item |                                                     | September 30, |           | December 31, |
|-------------------------------------------------|-----------------------------------------------------|---------------|-----------|--------------|
| (in thousands)                                  |                                                     | 2020          | 2019      | 2019         |
| <b>Operating leases</b>                         |                                                     |               |           |              |
| <b>Assets</b>                                   |                                                     |               |           |              |
| Operating leases                                | Operating lease right-of-use assets                 | \$ 41,453     | \$ 34,463 | \$ 35,436    |
| <b>Liabilities</b>                              |                                                     |               |           |              |
| Operating - current                             | Accrued expenses and other current liabilities      | \$ 8,443      | \$ 7,037  | \$ 7,392     |
| Operating - noncurrent                          | Operating lease liabilities                         | 33,354        | 27,256    | 27,930       |
| Total operating lease liabilities               |                                                     | \$ 41,797     | \$ 34,293 | \$ 35,322    |
| <b>Finance leases</b>                           |                                                     |               |           |              |
| <b>Assets</b>                                   |                                                     |               |           |              |
| Property and equipment, gross                   | Property, plant and equipment, net                  | \$ 3,569      | \$ 3,569  | \$ 3,569     |
| Accumulated amortization                        | Property, plant and equipment, net                  | (3,036)       | (2,578)   | (2,739)      |
| Property and equipment, net                     | Property, plant and equipment, net                  | \$ 533        | \$ 991    | \$ 830       |
| <b>Liabilities</b>                              |                                                     |               |           |              |
| Other current liabilities                       | Accrued expenses and other current liabilities      | \$ 771        | \$ 1,116  | \$ 1,125     |
| Other long-term liabilities                     | Deferred income tax and other long-term liabilities | —             | 764       | 386          |
| Total finance lease liabilities                 |                                                     | \$ 771        | \$ 1,880  | \$ 1,511     |

The components of lease expense were as follows:

| Condensed Consolidated Statements of Operations |                                                   | Three Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |          |
|-------------------------------------------------|---------------------------------------------------|-------------------------------------|----------|------------------------------------|----------|
| Line Item                                       |                                                   | 2020                                | 2019     | 2020                               | 2019     |
| <i>(in thousands)</i>                           |                                                   |                                     |          |                                    |          |
| Operating lease cost                            | General administrative expenses and cost of sales | \$ 2,736                            | \$ 2,379 | \$ 7,708                           | \$ 6,784 |
| Finance lease cost:                             |                                                   |                                     |          |                                    |          |
| Amortization of right-of-use assets             | General administrative expenses                   | \$ 218                              | \$ 218   | \$ 654                             | \$ 654   |
| Interest on lease liabilities                   | Interest expense, net                             | 7                                   | 16       | 28                                 | 54       |
| Total finance lease                             |                                                   | \$ 225                              | \$ 234   | \$ 682                             | \$ 708   |

#### Other information

Supplemental cash flow information related to leases as follows:

|                                                                                                    |  | Three Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |          |
|----------------------------------------------------------------------------------------------------|--|-------------------------------------|----------|------------------------------------|----------|
|                                                                                                    |  | 2020                                | 2019     | 2020                               | 2019     |
| <i>(in thousands)</i>                                                                              |  |                                     |          |                                    |          |
| Cash paid for amounts included in the measurement of lease liabilities:                            |  |                                     |          |                                    |          |
| Operating cash flows for operating leases                                                          |  | \$ 2,611                            | \$ 2,324 | \$ 7,395                           | \$ 6,604 |
| Finance cash flows for finance leases                                                              |  | 290                                 | 290      | 870                                | 870      |
| Operating right-of-use assets obtained in exchange for lease obligations during the current period |  | 7,155                               | 1,616    | 14,312                             | 3,704    |

The following is a schedule, by years, of maturities of lease liabilities as of September 30, 2020:

|                                |  | Finance Leases | Operating Leases |
|--------------------------------|--|----------------|------------------|
| <i>(in thousands)</i>          |  |                |                  |
| Remaining three months of 2020 |  | \$ 290         | \$ 2,632         |
| 2021                           |  | 489            | 10,147           |
| 2022                           |  | —              | 7,933            |
| 2023                           |  | —              | 5,867            |
| 2024                           |  | —              | 4,834            |
| Thereafter                     |  | —              | 18,926           |
| Total lease payments           |  | 779            | 50,339           |
| Less: Present value discount   |  | (8)            | (8,542)          |
| Total lease liabilities        |  | \$ 771         | \$ 41,797        |

The following table summarizes the Company's lease terms and discount rates as of September 30, 2020 and 2019:

| Weighted-average remaining lease terms (in years): | 2020   | 2019   |
|----------------------------------------------------|--------|--------|
| Operating leases                                   | 7.03   | 6.72   |
| Finance leases                                     | 0.71   | 1.68   |
| Weighted-average discount rate:                    |        |        |
| Operating leases                                   | 5.30 % | 5.37 % |
| Finance leases                                     | 3.27 % | 3.23 % |

## 11. Debt

In May 2020, the Company entered into a third amendment to the unsecured credit agreement dated July 27, 2012 with Wells Fargo Bank, National Association, and certain other institutional lenders that provides for a \$300.0 million unsecured revolving credit facility ("Credit Facility"). The Amendment extends the term of the Credit Agreement from July 23, 2021, to July 23, 2022. The Company is required to pay an annual facility fee of 0.20 to 0.35 percent on the available commitments under the Credit Agreement, regardless of usage, with the applicable fee determined on a quarterly basis based on the Company's leverage ratio. The fee is included within other expense in the Company's condensed consolidated statement of operations.

Amounts borrowed under the Credit Agreement will bear interest at an annual rate equal to either, at the Company's option, (a) the rate for Eurocurrency deposits for the corresponding deposits of U.S. dollars as published by the ICE Benchmark Administration Limited, a United Kingdom company, or a comparable or successor quoting service approved by the Agent (the "LIBOR Rate"), adjusted for any reserve requirement in effect, plus a spread of from 0.80 to 1.65 percent, as determined on a quarterly basis based on the Company's leverage ratio, or (b) a base rate, plus a spread of 0.20 to 0.65 percent, as determined on a quarterly basis based on the Company's leverage ratio. In no event shall the LIBOR Rate be less than 0.25 percent. The base rate is defined in a manner such that it will not be less than the LIBOR Rate. The Company will pay fees for standby letters of credit at an annual rate equal to the LIBOR Rate plus the applicable spread described in the preceding clause (a), and will pay market-based fees for commercial letters of credit. The spread applicable to a particular LIBOR Rate loan or base rate loan depends on the consolidated leverage ratio of the Company and its subsidiaries at the time the loan is made. Loans outstanding under the Credit Agreement may be prepaid at any time without penalty except for LIBOR Rate breakage costs and expenses.

In March 2020, the Company elected to draw down \$150.0 million from the Credit Facility to increase its cash position and preserve financial flexibility in light of current uncertainty resulting from the COVID-19 outbreak; and subsequently paid down \$75.0 million during the third quarter of 2020. "Refer to Note 14 Subsequent Event." As of September 30, 2020, the Company's total available credit was \$227.5 million under this Credit Facility and other revolving credit lines.

In addition to the Credit Facility, certain of the Company's domestic subsidiaries are guarantors for a credit agreement between certain of its foreign subsidiaries and institutional lenders. Together, these credit facilities provide the Company with a total of \$303.9 million in revolving credit lines and an irrevocable standby letter of credit in support of various insurance deductibles.

The Company was in compliance with its financial covenants at September 30, 2020.

## 12. Commitments and Contingencies

### *Environmental*

The Company's policy with regard to environmental liabilities is to accrue for future environmental assessments and remediation costs when information becomes available that indicates that it is probable that the Company is liable for any related claims and assessments and the amount of the liability is reasonably estimable. The Company does not believe that any such matters will have a material adverse effect on the Company's financial condition, cash flows or results of operations.

### *Litigation and Potential Claims*

From time to time, the Company is involved in various legal proceedings and other matters arising in the normal course of business. Corrosion, hydrogen embrittlement, cracking, material hardness, wood pressure-treating chemicals, misinstallations,

misuse, design and assembly flaws, manufacturing defects, labeling defects, product formula defects, inaccurate chemical mixes, adulteration, environmental conditions, or other factors can contribute to failure of fasteners, connectors, anchors, adhesives, specialty chemicals, such as fiber reinforced polymers, and tool products. In addition, inaccuracies may occur in product information, descriptions and instructions found in catalogs, packaging, data sheets, and the Company's website.

The resolution of any claim or litigation is subject to inherent uncertainty and could have a material adverse effect on the Company's financial condition, cash flows or results of operations.

*Gentry Homes, Ltd. v. Simpson Strong-Tie Company Inc., et al.*, Case No. 17-cv-00566, was filed in a federal district court in Hawaii against Simpson Strong-Tie Company Inc. and the Company on November 20, 2017. The *Gentry* case is a product of a previous state court class action, *Nishimura v. Gentry Homes, Ltd., et al.*, Civil No. 11-1-1522-07, which is now closed. The *Nishimura* case concerned alleged corrosion of the Company's galvanized "hurricane straps" and mudsill anchor products used in a residential project in Ewa by Gentry, Honolulu, Hawaii. In the *Nishimura* case, the plaintiff homeowners and the developer, Gentry Homes, Ltd. ("Gentry"), arbitrated their dispute and agreed on a settlement in the amount of approximately \$90 million. In the subsequent *Gentry* case, Gentry alleges breach of warranty and negligent misrepresentation by the Company related to its "hurricane strap" and mudsill anchor products, and demands general, special, and consequential damages from the Company in an amount to be proven at trial. Gentry also seeks pre-judgment and post-judgment interest, attorneys' fees and costs, and other relief. The Company admits no liability and will vigorously defend the claims brought against it. At this time, the Company cannot reasonably ascertain the likelihood that it will be found responsible for substantial damages to Gentry. Based on the facts currently known, and subject to future events and circumstances, the Company believes that all or part of the claims brought against it in the *Gentry* case may be covered by its insurance policies.

Given the nature and the complexities involved in the *Gentry* proceeding, the Company is unable to estimate reasonably the likelihood of possible loss or a range of possible loss until the Company knows, among other factors, (i) the specific claims brought against the Company and the legal theories on which they are based; (ii) what claims, if any, might be dismissed without trial; (iii) how the discovery process will affect the litigation; (iv) the settlement posture of the other parties to the litigation; (v) the damages to be proven at trial, particularly if the damages are not specified or are indeterminate; (vi) the extent to which the Company's insurance policies will cover the claims or any part thereof, if at all; and (vii) any other factors that may have a material effect on the proceeding.

### 13. Segment Information

The Company is organized into three reportable segments, which are defined by the regions where the Company's products are manufactured, marketed and distributed to the Company's customers. The three regional segments are the North America segment, comprising primarily the United States and Canada; the Europe segment, comprising continental Europe and the United Kingdom; and the Asia/Pacific segment, comprising the Company's operations in China, Hong Kong, the South Pacific and the Middle East. The Company's China and Hong Kong operations are manufacturing and administrative support locations, respectively. These three reportable segments are similar in several ways, including the types of materials used in production, production processes, distribution channels and product applications. The Company's measure of profit or loss for its reportable segments is income (loss) from operations.

The following tables illustrate certain measurements used by management to assess the performance of its reportable segments as of or for the following periods:

|                                      | Three Months Ended September 30, |                   | Nine Months Ended September 30, |                   |
|--------------------------------------|----------------------------------|-------------------|---------------------------------|-------------------|
| (in thousands)                       | 2020                             | 2019              | 2020                            | 2019              |
| <b>Net Sales</b>                     |                                  |                   |                                 |                   |
| North America                        | \$ 316,902                       | \$ 265,505        | \$ 852,759                      | \$ 746,009        |
| Europe                               | 44,766                           | 42,219            | 114,877                         | 121,647           |
| Asia/Pacific                         | 2,636                            | 2,208             | 6,412                           | 6,373             |
| Total                                | <u>\$ 364,304</u>                | <u>\$ 309,932</u> | <u>\$ 974,048</u>               | <u>\$ 874,029</u> |
| <b>Sales to Other Segments *</b>     |                                  |                   |                                 |                   |
| North America                        | \$ 629                           | \$ 520            | \$ 1,940                        | \$ 1,327          |
| Europe                               | 1,193                            | 479               | 3,755                           | 1,568             |
| Asia/Pacific                         | 7,240                            | 7,600             | 17,717                          | 21,272            |
| Total                                | <u>\$ 9,062</u>                  | <u>\$ 8,599</u>   | <u>\$ 23,412</u>                | <u>\$ 24,167</u>  |
| <b>Income (Loss) from Operations</b> |                                  |                   |                                 |                   |
| North America                        | \$ 87,378                        | \$ 56,844         | \$ 213,135                      | \$ 139,489        |
| Europe                               | 6,074                            | 5,386             | 7,100                           | 9,645             |
| Asia/Pacific                         | 519                              | (481)             | (160)                           | (837)             |
| Administrative and all other         | (2,628)                          | (782)             | (7,170)                         | (3,654)           |
| Total                                | <u>\$ 91,343</u>                 | <u>\$ 60,967</u>  | <u>\$ 212,905</u>               | <u>\$ 144,643</u> |

\* Sales to other segments are eliminated in consolidation.

|                              | At September 30,    |                     | At December 31,     |
|------------------------------|---------------------|---------------------|---------------------|
| (in thousands)               | 2020                | 2019                | 2019                |
| <b>Total Assets</b>          |                     |                     |                     |
| North America                | \$ 1,524,482        | \$ 1,246,617        | \$ 1,269,545        |
| Europe                       | 186,051             | 169,183             | 169,785             |
| Asia/Pacific                 | 31,109              | 28,009              | 30,055              |
| Administrative and all other | (463,777)           | (357,501)           | (374,019)           |
| Total                        | <u>\$ 1,277,865</u> | <u>\$ 1,086,308</u> | <u>\$ 1,095,366</u> |

Cash collected by the Company's United States subsidiaries is routinely transferred into the Company's cash management accounts and, therefore, has been included in the total assets of "Administrative and all other." Cash and cash equivalent balances in the "Administrative and all other" segment were \$244.5 million, \$135.9 million, and \$161.4 million, as of September 30, 2020 and 2019, and December 31, 2019, respectively. Total "Administrative and all other" assets are net of inter-segment due to and from accounts eliminated in consolidation.

While the Company manages its business by geographic segment, the following table illustrates the distribution of the Company's net sales by product group as additional information for the following periods:

|                                | Three Months Ended September 30, |                   | Nine Months Ended September 30, |                   |
|--------------------------------|----------------------------------|-------------------|---------------------------------|-------------------|
| (in thousands)                 | 2020                             | 2019              | 2020                            | 2019              |
| Wood construction products     | \$ 311,167                       | \$ 255,869        | \$ 834,411                      | \$ 731,898        |
| Concrete construction products | 52,983                           | 53,947            | 139,299                         | 141,883           |
| Other                          | 154                              | 116               | 338                             | 248               |
| Total                          | <u>\$ 364,304</u>                | <u>\$ 309,932</u> | <u>\$ 974,048</u>               | <u>\$ 874,029</u> |

Wood construction products include connectors, truss plates, fastening systems, fasteners and pre-fabricated shearwalls, and are used for connecting and strengthening wood-based construction primarily in the residential construction market. Concrete construction products include adhesives, chemicals, mechanical anchors, carbide drill bits, powder actuated tools and fiber

reinforcing materials, and are used for restoration, protection or strengthening concrete, masonry and steel construction in residential, industrial, commercial and infrastructure construction.

#### **14. Subsequent Events**

On October 23, 2020, the Company's Board of Directors declared a quarterly cash dividend of \$0.23 per share, estimated to be \$10.0 million in total. The dividend will be payable on January 28, 2021, to the Company's stockholders of record on January 7, 2021.

On October 30, 2020, the Company paid down \$25.0 million of the \$75.0 million outstanding under its Credit Facility as of September 30, 2020.

#### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

Each of the terms the "Company," "we," "our," "us" and similar terms used herein refer collectively to Simpson Manufacturing Co., Inc., a Delaware corporation and its wholly-owned subsidiaries, including Simpson Strong-Tie Company Inc., unless otherwise stated. The Company regularly uses its website to post information regarding its business and governance. The Company encourages investors to use <http://www.simpsonmfg.com> as a source of information about the Company.

"Strong-Tie" and our other trademarks appearing in this report are our property. This report contains additional trade names and trademarks of other companies. We do not intend our use or display of other companies' trade names or trademarks to imply an endorsement or sponsorship of us by such companies, or any relationship with any of these companies.

#### **CAUTIONARY NOTE ABOUT FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements generally can be identified by words such as "anticipate," "believe," "estimate," "expect," "intend," "plan," "target," "continue," "predict," "project," "change," "result," "future," "will," "could," "can," "may," "likely," "potentially," or similar expressions that concern our strategy, plans, expectations or intentions. Forward-looking statements include, but are not limited to, statements about future financial and operating results, our plans, objectives, business outlook, priorities, expectations and intentions, expectations for sales growth, comparable sales, earnings and performance, stockholder value, capital expenditures, cash flows, the housing market, the home improvement industry, demand for services, share repurchases, our strategic initiatives, including the impact of these initiatives on our strategic and operational plans and financial results, and any statement of an assumption underlying any of the foregoing and other statements that are not historical facts. Although we believe that the expectations, opinions, projections and comments reflected in these forward-looking statements are reasonable, such statements involve risks and uncertainties and we can give no assurance that such statements will prove to be correct. Actual results may differ materially from those expressed or implied in such statements.

Forward-looking statements are subject to inherent uncertainties, risk and other factors that are difficult to predict and could cause our actual results to vary in material respects from what we have expressed or implied by these forward-looking statements. Important factors that could cause our actual results and financial condition to differ materially from those expressed in our forward looking statements include, among others, those discussed under the Item 1A. Risk Factors and Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in the 2019 Form 10-K and Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations and Part II Item 1A Risk Factors in the Quarterly Report on Form 10-Q for the quarters ended March 31, 2020 and June 30, 2020. Additional risks include: the cyclical nature and impact of general economic conditions; changing conditions in global markets including the impact of sanctions and tariffs, quotas and other trade actions and import restrictions; the impact of pandemics, epidemics or other public health emergencies, such as the recent outbreak of coronavirus disease 2019 (COVID-19); volatile supply and demand conditions affecting prices and volumes in the markets for both our products and raw materials we purchase; the impact of foreign currency fluctuations; potential limitations on our ability to access capital resources and existing credit facilities; restrictions on our business and financial covenants under our bank credit agreement; and reliance on employees subject to collective bargaining agreements.

We caution that you should not place undue reliance on these forward-looking statements, which speak only as of the date of this report. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise. Readers are urged to carefully review and consider the various disclosures made

by us in this report and in our other reports filed with the SEC that advise of the risks and factors that may affect our business.

## **Overview**

We design, manufacture and sell building construction products that are of high quality and performance, easy to use and cost-effective for customers. We operate in three business segments determined by geographic region: North America, Europe and Asia/Pacific.

Our strategic plan for growth includes increasing our market share and profitability in Europe; growing our market share in the concrete space; and continuing to develop our software to support our core wood products offering while leveraging our strengths in engineering, sales and distribution, and our strong brand name. We believe these initiatives and objectives are crucial to not only offer a more complete solution to our customers and bolster our sales of core wood connector products, but also to mitigate the effect of the cyclical nature of the U.S. housing market.

On October 30, 2017, we announced the 2020 Plan to provide additional transparency into the execution of our strategic plan and financial objectives. During the first quarter of 2020, the execution of our 2020 Plan continued to deliver financial and operational efficiencies. However, given the uncertainties surrounding the impact of COVID-19 on our business, on April 27, 2020, we withdrew our prior full year 2020 guidance originally issued on February 3, 2020, as well as the financial targets associated with the 2020 Plan.

In December 2019, COVID-19 was first identified in Wuhan, China. Over the next several months, COVID-19 quickly spread across the world. In March 2020, the WHO declared COVID-19 a worldwide pandemic based on the rapid increase in exposure globally, and the President of the United States declared the COVID-19 outbreak a national emergency. As of October 31, 2020, the virus continues to spread infecting over 46 million people worldwide. No vaccine is currently available for COVID-19 and the duration and severity of its effects are still unknown.

Government authorities in the countries and states where we operate have issued various and differing shelter in place, stay at home, social distancing guidelines and other measures in response to the COVID-19 pandemic. In many of those locations our operations are classified as an essential business and all of our manufacturing and distribution facilities continue to operate in accordance with those orders. In late March, two of our larger European manufacturing facilities in the United Kingdom and France were ordered to cease nearly all operations. Those two facilities have since re-opened. To date, there have been no orders to close any of our manufacturing or distribution facilities. The Company's management team continues to monitor and manage its ability to operate effectively and, to date, the Company has not experienced any significant disruptions within its supply chain. Our supply chain partners have been very supportive and continue to do their part to ensure that service levels to our customers remain strong and, to date, we have not experienced any supply-chain disruptions related to COVID-19 and have been able to meet our customers' needs. We will continue to communicate with our supply chain partners to identify and mitigate risk and to manage inventory levels.

In response to the COVID-19 pandemic the Company proactively took measures to maintain and preserve its strong financial position and flexibility, including drawing down on the Credit Facility, implementing a hiring freeze and adjusting employee hours to meet production requirements, although during the year the Company has resumed hiring to meet increased demand levels that it has experienced. The Company will continue to be conservative in its capital allocation approach but does project to repay the draw down on its Credit Facility by the end of the 2020 fiscal year and has resumed the stock repurchase program in the fourth quarter 2020. As a result of COVID-19 and in support of continuing its manufacturing efforts, the Company has undertaken a number of steps to protect its employees, suppliers and customers, as their safety and well-being is one of our top priorities. We have instituted additional precautions in our manufacturing and distribution facilities to comply with health and safety guidelines and to protect our employees, including enhanced deep cleaning, staggered shifts, temperature checking, use of face masks, practicing social distancing and limiting non-employees at our locations, amongst other safety related policies and procedures. Many of our office workers in our manufacturing and distribution facilities, as well as the corporate headquarters, continue to work remotely, where possible. The senior management team meets regularly to review and assess the status of the Company's operations and the health and safety of its employees.

A significant portion of the Company's total product sales is dependent on US housing starts and its business, financial condition, and results of operations depends significantly on the level of housing and residential construction activity. We anticipated previously that the effects of responses to the pandemic would have a negative effect on our North America operations. However, single-family housing starts increased from April's and May's lower levels and increased from prior-year's level of starts. Due to the return of a nationwide home center customer, increased housing starts and a strong home repair and remodel market, October 2020 sales were up compared to October 2019 and on pace for a 3% increase in the fourth quarter of 2020 compared to the fourth quarter of 2019. Whether this trend continues at the same pace or decline for the remainder of the

year is not known. Declines in housing and residential construction, such as housing starts and home improvement projects, which generally occur during economic downturns, have in the past significantly reduced, and in the future may reduce, the demand for, and net sales, of the Company's products.

The magnitude and duration of the pandemic including its impact on our operations, supply chain partners and general economic conditions, is uncertain and we continue to monitor the impact of the pandemic on our operations and financial condition, which was not significantly adversely impacted in the first nine months of 2020. We are uncertain of the long-term effects on the North America segment and Europe segment at this time.

Management continues to monitor the impact of the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce.

### **Factors Affecting Our Results of Operations**

Unlike lumber or other products that have a more direct correlation to U.S. housing starts, our products are used to a greater extent in areas that are subject to natural forces, such as seismic or wind events. Our products are generally used in a sequential process that follows the construction process. Residential and commercial construction begins with the foundation, followed by the wall and the roof systems, and then the installation of our products, which flow into a project or a house according to these schedules.

Our sales also tend to be seasonal, with operating results varying from quarter to quarter. With some exceptions, our sales and income have historically been lower in the first and fourth quarters than in the second and third quarters of a fiscal year, as our customers tend to purchase construction materials in the late spring and summer months for the construction season. Weather conditions, such as extended cold or wet weather, which affect and sometimes delay installation of some of our products, could negatively affect our results of operations. Political, economic events such as tariffs and the possibility of additional tariffs on imported raw materials or finished goods or such as labor disputes can also have an effect on our gross and operating profits as well as the amount of inventory on-hand.

Our operations expose us to risks associated with pandemics, epidemics or other public health emergencies, such as the COVID-19 pandemic which spread from China to many other countries including the United States. The pandemic resulted in governments around the world implementing stringent measures to help control the spread of the virus, including quarantines, social distancing guidelines, “shelter in place” and “stay at home” orders, travel restrictions, business curtailments, school closures, and other measures. In addition, governments and central banks in several parts of the world had enacted fiscal and monetary stimulus measures to counteract the impacts of the pandemic.

Notwithstanding our continued operations and third quarter performance, the COVID-19 pandemic may have negative impacts on our operations, supply chain, transportation networks and customers, which may compress our margins, including as a result of preventative and precautionary measures that we, other businesses and governments are taking. Any resulting economic downturn could adversely affect demand for our products and contribute to volatile supply and demand conditions affecting prices and volumes in the markets for our products, services and raw materials. The progression of this matter could also negatively impact our business or results of operations through the temporary closure of our operating locations or those of our customers or suppliers, among others.

In addition, the ability of our employees and our suppliers' and customers' employees to work may be significantly impacted by individuals contracting or being exposed to COVID-19, or as a result of the control measures noted above, which may significantly hamper our production throughout the supply chain and constrict sales channels. The extent to which COVID-19 pandemic may adversely impact our business depends on future developments, which are highly uncertain and unpredictable, including new information concerning the severity of the pandemic and the effectiveness of actions globally to contain or mitigate its effects. Our consolidated financial statements and discussion and analysis of financial condition and results of operations reflect estimates and assumptions made by management as of September 30, 2020. Events and changes in circumstances arising after September 30, 2020, including those resulting from the impacts of COVID-19 pandemic, will be reflected in management's estimates for future periods.

### **ERP Integration**

In July 2016, our Board of Directors (the “Board”) approved a plan to replace our current in-house enterprise resource planning (“ERP”) and externally sourced accounting platforms with a fully integrated ERP platform from SAP America, Inc. (“SAP”) in

multiple phases by location at all facilities plus our headquarters, with a focus on configuring, instead of customizing, the standard SAP modules.

We went live with our first wave of the SAP implementation project in February of 2018, and we implemented SAP at five additional locations in 2019 and 2020. We are tracking toward rolling out SAP technology in our remaining North America branches by 2021, and company-wide completion of the SAP roll-out is currently targeted for 2022. Meeting the 2022 goal is highly dependent on the lifting of current travel restrictions, which are the result of the COVID-19 pandemic. While we believe the SAP implementation will be beneficial to the Company over time, annual operating expenses have and are expected to continue to increase through 2024 as a result of the SAP implementation, primarily due to increases in training costs and the depreciation of previously capitalized costs. As of September 30, 2020, we have capitalized \$19.4 million and expensed \$34.9 million of the costs, including \$5.3 million in depreciation expense of capitalized costs.

### **Business Segment Information**

Historically our North America segment has generated more revenues from wood construction products compared to concrete construction products. During the first nine months of 2020, the return of a nationwide home center customer, favorable weather, increased home improvement activity and increased housing starts resulted in higher sales volumes over the same time period of 2019, which had extremely wet weather in the first half of the year. Our wood construction product net sales increased 22.6% for the quarter ended September 30, 2020 compared to September 30, 2019, primarily due to increased sales volumes in connection with the return of a nationwide home center customer and increased housing starts and repair and remodel activity, which resulted in increased sales to some of our other sales distributor channels. Our concrete construction product net sales increased 1.9% for the quarter ended September 30, 2020 compared to September 30, 2019, primarily due to higher sales volumes. Operating profits increased due to higher sales, lower cost of goods sold, mostly due to lower material, and lower operating expenses. In operating expenses, increases in cash profit sharing and stock-based compensation expense were partially offset by reductions in consulting fees and travel related expense.

Our Europe segment also generates more revenues from wood construction products than concrete construction products. Europe net sales increased for the quarter ended September 30, 2020 compared to September 30, 2019, primarily due to benefiting from approximately \$2.1 million of foreign currency translations for some Europe currencies strengthening against the United States dollar. In local currency, Europe net sales increased due to higher volumes. Wood construction product sales increased 14.2% for the quarter ended September 30, 2020 compared to September 30, 2019. Concrete construction product sales are mostly project based, and net sales decreased 15.2% for the quarter ended September 30, 2020 compared to September 30, 2019. Gross margins decreased, mostly due to higher labor, warehouse and shipping costs, partly offset by lower material and factory and overhead costs. Operating expenses increased, primarily due to higher cash profit sharing and stock-based compensation expense.

Our Asia/Pacific segment has generated revenues from both wood and concrete construction products. We believe that the Asia/Pacific segment is not significant to our overall performance.

### **Business Outlook**

At the time the Company withdrew its outlook it was unable to forecast its full-year outlook with reasonable accuracy given the uncertainty surrounding the COVID-19 pandemic and the related impact on the Company's business. On July 27, 2020, the Company reinstated its 2020 full-year outlook originally provided on February 3, 2020 and is again updating its full year outlook, primarily reflecting three quarters of actual results, as well as improved visibility on the progression of pandemic-related restrictions and the impact of those restrictions on the Company's operations. Based on business trends and conditions as of the day we announced our third quarter earnings, the Company's outlook for the full fiscal year ending December 31, 2020 is as follows:

- Net sales are estimated to increase in the range of 9.0% to 10.0% compared to the full year ended December 31, 2019.
- Gross margin is estimated to be in the range of approximately 45.0% to 46.0%.
- Operating expenses, as a percentage of net sales, are estimated to be in the range of approximately 25.0% to 26.5%.
- The effective tax rate is estimated to be in the range of 24.5% to 26.0%, including both federal and state income tax rates.

Additionally, we believe the Company's gross margins and operating margins for the 2021 fiscal year will pull back from our expectations for the full year 2020 as we anticipate costs directly related to materials, production headcount, customer engagement and investments in business growth will increase in 2021.

While the magnitude and duration of the COVID-19 pandemic and its impact on general economic conditions remains uncertain, the Company is continuing to monitor the impact of the pandemic on its operations and financial condition, which was not significantly adversely impacted in the third quarter of 2020, primarily due to the return of a nationwide home center customer, and increased housing starts and home improvement activity. Please note that ongoing uncertainties surrounding the impact of the pandemic on Simpson's business, which may include the economic impact on its operations, raw material costs, consumers, suppliers, vendors, and other factors outside of its control, may have a material adverse impact on the Company's financial outlook.

### Results of Operations for the Three Months Ended September 30, 2020, Compared with the Three Months Ended September 30, 2019

Unless otherwise stated, the below results, when providing comparisons (which are generally indicated by words such as "increased," "decreased," "unchanged" or "compared to"), compare the results of operations for the three months ended September 30, 2020, against the results of operations for the three months ended September 30, 2019. Unless otherwise stated, the results announced below, when referencing "both quarters," refer to the three months ended September 30, 2019 and the three months ended September 30, 2020.

### Third Quarter 2020 Consolidated Financial Highlights

The following table illustrates the differences in our operating results for the three months ended September 30, 2020, from the three months ended September 30, 2019, and the increases or decreases for each category by segment:

|                                                        | Three Months<br>Ended | Increase (Decrease) in Operating Segment |          |                  |                      | Three Months<br>Ended |
|--------------------------------------------------------|-----------------------|------------------------------------------|----------|------------------|----------------------|-----------------------|
|                                                        | September 30,<br>2019 | North<br>America                         | Europe   | Asia/<br>Pacific | Admin &<br>All Other | September 30,<br>2020 |
| <i>(in thousands)</i>                                  |                       |                                          |          |                  |                      |                       |
| Net sales                                              | \$ 309,932            | \$ 51,397                                | \$ 2,547 | \$ 428           | \$ —                 | \$ 364,304            |
| Cost of sales                                          | 172,288               | 17,310                                   | 1,781    | (493)            | 175                  | 191,061               |
| Gross profit                                           | 137,644               | 34,087                                   | 766      | 921              | (175)                | 173,243               |
| Research and development and other engineering expense | 11,972                | 181                                      | 72       | 62               | —                    | 12,287                |
| Selling expense                                        | 27,672                | 1,649                                    | 45       | 30               | —                    | 29,396                |
| General and administrative expense                     | 37,047                | 1,725                                    | (16)     | (138)            | 1,671                | 40,289                |
| Total operating expenses                               | 76,691                | 3,555                                    | 101      | (46)             | 1,671                | 81,972                |
| Net loss (gain) on disposal of assets                  | (14)                  | (1)                                      | (23)     | (34)             | —                    | (72)                  |
| Income from operations                                 | 60,967                | 30,533                                   | 688      | 1,001            | (1,846)              | 91,343                |
| Interest income (expense), net and other               | (1,778)               | 894                                      | 956      | (137)            | (453)                | (518)                 |
| Income before income taxes                             | 59,189                | 31,427                                   | 1,644    | 864              | (2,299)              | 90,825                |
| Provision for income taxes                             | 15,503                | 7,970                                    | 545      | 266              | (516)                | 23,768                |
| Net income                                             | \$ 43,686             | \$ 23,457                                | \$ 1,099 | \$ 598           | \$ (1,783)           | \$ 67,057             |

Net sales increased 17.5% to \$364.3 million from \$309.9 million. Net sales to home centers, dealer distributors and lumber dealers increased primarily due to increases in sales volumes from the return of a nationwide home center customer. Net sales to contractor distributors decreased. Wood construction product net sales, including sales of connectors, truss plates, fastening systems, fasteners and shearwalls, represented 85% and 84% of the Company's total net sales in the third quarters of 2020 and 2019, respectively. Concrete construction product net sales, including sales of adhesives, chemicals, mechanical anchors,

powder actuated tools and reinforcing fiber materials, represented 15% and 16% of the Company's total net sales in the third quarters of 2020 and 2019, respectively.

*Gross profit* increased 25.9% to \$173.2 million from \$137.6 million. Gross margins increased to 47.6% from 44.0%, primarily due to lower material costs and factory and overhead expense (on higher production), partly offset by higher warehouse, shipping and labor expense each as a percentage of net sales. Gross margins, including some inter-segment expenses, which were eliminated in consolidation, and excluding other expenses that are allocated according to product group, increased to 48.0% from 44.4% for wood construction products and increased to 42.1% from 41.6% for concrete construction products, respectively.

*Research and development and engineering expense* increased 2.6% to \$12.3 million from \$12.0 million, primarily due to increases of \$0.6 million in cash profit sharing expense and \$0.2 million in stock-based compensation expense on our performance based awards, partly offset by decreased software development costs.

*Selling expense* increased 6.2% to \$29.4 million from \$27.7 million, primarily due to increases of \$1.7 million in cash profit sharing and sales commissions, \$0.8 million in personnel costs, \$0.4 million in stock-based compensation and \$0.4 million in professional fees, partly offset by decreases of \$1.3 million in travel-associated expenses, and \$0.4 million in promotional and advertising expense.

*General and administrative expense* increased 8.8% to \$40.3 million from \$37.0 million, primarily due to increases of \$2.0 million in cash profit sharing expense, \$1.1 million in stock-based compensation expense on our performance based awards, \$0.9 million in depreciation and amortization expense and \$0.6 million in insurance expense, partly offset by a decrease of \$1.1 million in travel-associated expenses. Included in general and administrative expense are SAP implementation and support costs of \$3.2 million, which decreased \$0.4 million from the prior quarter.

Our *effective income tax rate* was 26.2% for both periods.

*Consolidated net income* was \$67.1 million compared to \$43.7 million. Diluted net income per common share was \$1.54 compared to \$0.97.

### **Net sales**

The following table represents net sales by segment for the three-month periods ended September 30, 2020 and 2019, respectively:

| <i>(in thousands)</i> | North<br>America | Europe    | Asia/<br>Pacific | Total      |
|-----------------------|------------------|-----------|------------------|------------|
| Three months ended    |                  |           |                  |            |
| September 30, 2019    | \$ 265,505       | \$ 42,219 | \$ 2,208         | \$ 309,932 |
| September 30, 2020    | 316,902          | 44,766    | 2,636            | 364,304    |
| Increase              | \$ 51,397        | \$ 2,547  | \$ 428           | \$ 54,372  |
| Percentage increase   | 19.4 %           | 6.0 %     | 19.4 %           | 17.5 %     |

The following table represents segment net sales as percentages of total net sales for the three-month periods ended September 30, 2020 and 2019, respectively:

|                                    | North<br>America | Europe | Asia/<br>Pacific | Total |
|------------------------------------|------------------|--------|------------------|-------|
| Percentage of total 2019 net sales | 86 %             | 14 %   | 1 %              | 100 % |
| Percentage of total 2020 net sales | 87 %             | 12 %   | 1 %              | 100 % |

## Gross profit

The following table represents gross profit by segment for the three-month periods ended September 30, 2020 and 2019, respectively:

| <i>(in thousands)</i>          | North<br>America | Europe    | Asia/<br>Pacific | Admin &<br>All Other | Total      |
|--------------------------------|------------------|-----------|------------------|----------------------|------------|
| Three months ended             |                  |           |                  |                      |            |
| September 30, 2019             | \$ 120,974       | \$ 16,214 | \$ 455           | \$ 1                 | \$ 137,644 |
| September 30, 2020             | 155,061          | 16,980    | 1,376            | (174)                | 173,243    |
| Increase (decrease)            | \$ 34,087        | \$ 766    | \$ 921           | \$ (175)             | \$ 35,599  |
| Percentage Increase (decrease) | 28.2 %           | 4.7 %     | *                | *                    | 25.9 %     |

\* The statistic is not meaningful or material.

The following table represents gross profit as a percentage of sales by segment for the three months ended September 30, 2020 and 2019, respectively:

|                              | North<br>America | Europe | Asia/<br>Pacific | Admin &<br>All Other | Total  |
|------------------------------|------------------|--------|------------------|----------------------|--------|
| 2019 gross profit percentage | 45.6 %           | 38.4 % | 20.6 %           | *                    | 44.4 % |
| 2020 gross profit percentage | 48.9 %           | 37.9 % | 52.2 %           | *                    | 47.6 % |

\* The statistic is not meaningful or material.

### North America

- Net sales increased 19.4%, primarily due to higher sales volumes from the return of a nationwide home center customer and increased repair and remodel activity, as well as from other sales distributor channels, which experienced increased new housing starts and repair and remodel activity. Canada's net sales increased but were negatively affected by foreign currency translation.
- Gross profit as a percentage of net sales increased to 48.9% from 45.6% primarily due to decreases in material and labor costs, partly offset by higher warehouse and shipping costs, each as a percentage of net sales.
- Research and development and engineering expense increased \$0.2 million, primarily due to increases of \$0.6 million in cash profit sharing expense and \$0.2 million in stock-based compensation, partly offset by decreased software development costs.
- Selling expense increased \$1.6 million, primarily due to increases of \$1.5 million in cash profit sharing and sales commissions, \$0.6 million in personnel expense, \$0.5 million in professional fees, and \$0.3 million in stock-based compensation for our performance based awards, partly offset by decreases of \$1.1 million in travel-associated expenses and \$0.2 million in promotional and advertising expense.
- General and administrative expense increased \$1.7 million, primarily due to increases of \$1.1 million in stock-based compensation expense for our performance based awards, \$0.6 million in depreciation and amortization, \$0.3 million in rent expense, and \$0.2 million in cash profit sharing expense, partly offset by a decrease of \$0.8 million in travel-related expenses. Included in general and administrative expense are SAP implementation and support costs of \$2.5 million, which decreased \$0.4 million from the prior quarter.
- Income from operations increased by \$30.5 million, primarily due to increased gross profit, partly offset by higher operating expenses.

### ***Europe***

- Net sales increased 6.0%, primarily due to higher sales volumes along with the positive impact of foreign currency translation of approximately \$2.1 million from some Europe currencies strengthening against the United States dollar. In local currency, Europe net sales increased due to higher sales volumes.
- Gross profit as a percentage of net sales decreased to 37.9% from 38.4%, primarily due to increased labor, warehouse and shipping costs, partly offset by lower material and factory and overhead cost.
- Income from operations increased by \$0.7 million, primarily due to higher gross profits.

### ***Asia/Pacific***

- For information about the Company's Asia/Pacific segment, please refer to the tables above setting forth changes in our operating results for the three months ended September 30, 2020 and 2019, respectively.

### ***Admin & All Other***

- General and administrative expense increased \$1.7 million, primarily due to increases of \$1.3 million in cash profit sharing expense.

### **Results of Operations for the Nine Months Ended September 30, 2020, Compared with the Nine Months Ended September 30, 2019**

Unless otherwise stated, the results announced below, when providing comparisons (which are generally indicated by words such as “increased,” “decreased,” “unchanged” or “compared to”), compare the results of operations for the nine months ended September 30, 2020, against the results of operations for the nine months ended September 30, 2019. Unless otherwise stated, the results announced below, when referencing “both periods,” refer to the nine months ended September 30, 2019 and the nine months ended September 30, 2020

### **Year-to-Date (9-month) 2020 Consolidated Financial Highlights**

The following table illustrates the differences in our operating results for the nine months ended September 30, 2020, from the nine months ended September 30, 2019, and the increases or decreases for each category by segment:

|                                                        | Nine Months<br>Ended<br>September<br>30, | Increase (Decrease) in Operating Segment |            |                  |                      | Nine Months<br>Ended<br>September<br>30, |
|--------------------------------------------------------|------------------------------------------|------------------------------------------|------------|------------------|----------------------|------------------------------------------|
| (in thousands)                                         | 2019                                     | North<br>America                         | Europe     | Asia/<br>Pacific | Admin &<br>All Other | 2020                                     |
| Net sales                                              | 874,029                                  | \$ 106,750                               | \$ (6,770) | \$ 39            | \$ —                 | \$ 974,048                               |
| Cost of sales                                          | 491,952                                  | 33,138                                   | (3,657)    | (63)             | (31)                 | 521,339                                  |
| Gross profit                                           | 382,077                                  | 73,612                                   | (3,113)    | 102              | 31                   | 452,709                                  |
| Research and development and other engineering expense | 35,287                                   | 2,503                                    | 50         | 20               | —                    | 37,860                                   |
| Selling expense                                        | 84,471                                   | 1,108                                    | (495)      | (327)            | —                    | 84,757                                   |
| General and administrative expense                     | 117,941                                  | (3,341)                                  | (523)      | (227)            | 3,546                | 117,396                                  |
|                                                        | 237,699                                  | 270                                      | (968)      | (534)            | 3,546                | 240,013                                  |
| Net gain on disposal of assets                         | (265)                                    | (304)                                    | 399        | (39)             | —                    | (209)                                    |
| Income from operations                                 | 144,643                                  | 73,646                                   | (2,544)    | 675              | (3,515)              | 212,905                                  |
| Interest expense, net and other                        | (2,394)                                  | 1,108                                    | 66         | (282)            | (1,700)              | (3,202)                                  |
| Income before income taxes                             | 142,249                                  | 74,754                                   | (2,478)    | 393              | (5,215)              | 209,703                                  |
| Provision for income taxes                             | 36,324                                   | 17,169                                   | (136)      | 46               | (1,062)              | 52,341                                   |
| Net income                                             | \$ 105,925                               | \$ 57,585                                | \$ (2,342) | \$ 347           | \$ (4,153)           | \$ 157,362                               |

*Net sales* increased 11.4% to \$974.0 million from \$874.0 million. Net sales to home centers, lumber dealers and dealer distributors increased, primarily due to increases in product sales volumes from the return of a nationwide home center customer. Net sales to contractor distributors decreased. Wood construction product net sales, including sales of connectors, truss plates, fastening systems, fasteners and shearwalls, represented 86% and 84% of the Company's total net sales in the first nine months of 2020 and 2019, respectively. Concrete construction product net sales, including sales of adhesives, chemicals, mechanical anchors, powder actuated tools and reinforcing fiber materials, represented 14% and 16% of the Company's total net sales in the first nine months of 2020 and 2019, respectively.

*Gross profit* increased 18.5% to \$452.7 million from \$382.1 million. Gross profit margins increased to 46.5% from 43.3%, primarily due to lower material costs and factory and overhead expense (on higher production), partly offset by higher warehouse, labor and shipping expense each as a percentage of net sales. The gross profit margins, including some inter-segment expenses, which were eliminated in consolidation, and excluding other expenses that are allocated according to product group, increased to 46.6% from 43.4% for wood construction products and increased to 42.3% from 41.6% for concrete construction products.

*Research and development and engineering expense* increased 7.3% to \$37.9 million from \$35.3 million primarily due to increases of \$1.9 million in cash profit sharing expense and \$0.3 million in personnel costs.

*Selling expense* increased slightly to \$84.8 million from \$84.5 million, primarily due to increases of \$4.0 million in cash profit sharing and sales commissions and \$2.4 million in personnel costs, partly offset by decreases of \$3.2 million in travel-associated expenses, \$1.1 million in advertising and promotional expense, \$0.8 million in professional fees and \$0.5 million in royalty expense.

*General and administrative expense* decreased slightly to \$117.4 million from \$117.9 million, primarily due to decreases of \$7.1 million in professional fees, including consulting fees, \$2.1 million in travel-associated expenses and \$0.3 million in lower bad debt expenses, partly offset by increases of \$4.6 million in cash profit sharing expense, \$1.7 million in personnel related expense, \$1.7 million in depreciation and amortization expense, \$0.7 million in insurance expense, and \$0.6 million in computer software and hardware costs. Included in general and administrative expense are costs associated with the SAP implementation and support of \$9.1 million, a decrease of \$0.3 million over the first nine-months of 2019.

Our *effective income tax rate* decreased to 25.0% from 25.1%.

*Consolidated net income* was \$157.4 million compared to \$105.9 million. Diluted net income per common share was \$3.59 compared to \$2.35.

## Net sales

The following table represents net sales by segment for the nine-month periods ended September 30, 2019 and 2020, respectively:

| <i>(in thousands)</i>          | North<br>America | Europe     | Asia/<br>Pacific | Total      |
|--------------------------------|------------------|------------|------------------|------------|
| Nine Months Ended              |                  |            |                  |            |
| September 30, 2019             | \$ 746,009       | \$ 121,647 | \$ 6,373         | \$ 874,029 |
| September 30, 2020             | 852,759          | 114,877    | 6,412            | 974,048    |
| Increase (decrease)            | \$ 106,750       | \$ (6,770) | \$ 39            | \$ 100,019 |
| Percentage increase (decrease) | 14.3 %           | (5.6)%     | 0.6 %            | 11.4 %     |

The following table represents segment net sales as percentages of total net sales for the nine-month periods ended September 30, 2019 and 2020, respectively:

|                                    | North<br>America | Europe | Asia/<br>Pacific | Total |
|------------------------------------|------------------|--------|------------------|-------|
| Percentage of total 2019 net sales | 85 %             | 14 %   | 1 %              | 100 % |
| Percentage of total 2020 net sales | 88 %             | 12 %   | — %              | 100 % |

## Gross profit

The following table represents gross profit by segment for the nine-month periods ended September 30, 2019 and 2020, respectively:

| <i>(in thousands)</i>          | North<br>America | Europe     | Asia/<br>Pacific | Admin &<br>All Other | Total      |
|--------------------------------|------------------|------------|------------------|----------------------|------------|
| Nine Months Ended              |                  |            |                  |                      |            |
| September 30, 2019             | \$ 336,251       | \$ 43,900  | \$ 1,924         | \$ 2                 | \$ 382,077 |
| September 30, 2020             | 409,863          | 40,787     | 2,026            | 33                   | 452,709    |
| Increase (decrease)            | \$ 73,612        | \$ (3,113) | \$ 102           | \$ 31                | \$ 70,632  |
| Percentage increase (decrease) | 21.9 %           | (7.1)%     | *                | *                    | 18.5 %     |

\* The statistic is not meaningful or material

The following table represents gross profit as a percentage of sales by segment for the nine-month periods ended September 30, 2019 and 2020, respectively:

| <i>(in thousand)</i>         | North<br>America | Europe | Asia/<br>Pacific | Admin &<br>All Other | Total  |
|------------------------------|------------------|--------|------------------|----------------------|--------|
| 2019 gross profit percentage | 45.1 %           | 36.1 % | 30.2 %           | *                    | 43.7 % |
| 2020 gross profit percentage | 48.1 %           | 35.5 % | 31.6 %           | *                    | 46.5 % |

\* The statistic is not meaningful or material.

## North America

- Net sales increased 14.3%, primarily due to higher sales volumes from the return of a nationwide home center customer. Canada's net sales were negatively affected by foreign currency translation. In local currency, Canada net sales increased primarily due to increases in sales volume.

- Gross profit margin increased to 48.1% from 45.1%, primarily due to decreases in material costs and factory and overhead costs (on higher production), partly offset by higher warehouse, labor and shipping costs, each as a percentage of net sales.
- Research and development and engineering expense increased \$2.5 million, primarily due to increases of \$1.9 million in cash profit sharing expense.
- Selling expense increased \$1.1 million, primarily due to increases of \$4.1 million in cash profit sharing and sales commissions and \$2.2 million in personnel costs, partly offset by decreases of \$2.6 million in travel-associated expenses, \$1.0 million in advertising and promotional expense, \$0.7 million in professional fees and \$0.6 million in royalty expense.
- General and administrative expense decreased \$3.3 million, primarily due to decreases of \$6.9 million in professional fees, including consulting fees, \$1.5 million in travel-associated expenses and \$0.2 million in stock-based compensation, partly offset by increases of \$3.4 million in cash profit sharing expense, \$1.2 million in depreciation and amortization expense, \$1.0 million in personnel related expense and \$0.6 million in computer software and hardware costs. Included in general and administrative expense are costs associated with the SAP implementation and support of \$7.2 million, a decrease of \$0.3 million over the first nine-months of 2019.
- Income from operations increased \$73.6 million, mostly due to increased sales, gross profit margins, partly offset by higher operating expenses.

### *Europe*

- Net sales decreased 5.6%, primarily due to lower sales volumes, that resulted from lower production related to COVID-19 plant closures. Europe sales were impacted by negative foreign currency translations resulting from some Europe currencies weakening against the United States dollar. In local currency, Europe net sales decreased primarily due to lower sales volumes.
- Gross profit margins decreased to 35.5% from 36.1%, primarily due to increases in labor, shipping and warehouse costs, partly offset by lower material and factory overhead, each cost as a percentage of net sales.
- Selling expense decreased \$0.5 million, primarily due to a decrease of \$0.6 million in travel-associated expenses.
- General and administrative expense decreased \$0.5 million, primarily due to decreases of \$0.4 million in travel and entertainment expense and \$0.3 million in cash profit sharing. Included in general and administrative expense are costs associated with the SAP implementation of \$1.8 million, a decrease of \$0.1 million over the first nine-months of 2019.
- Income from operations decreased \$2.5 million, primarily due to lower sales and gross profit margins, partly offset by lower operating expenses.

### *Asia/Pacific*

- For information about the Company's Asia/Pacific segment, please refer to the tables above setting forth changes in our operating results for the nine months ended September 30, 2020 and 2019, respectively.

### *Admin & All Other*

- General and administrative expense increased \$3.5 million, primarily due to increases of \$1.5 million in cash profit sharing expense, \$0.7 million in stock-based compensation, and \$0.6 million in insurance expense.

### *Effect of New Accounting Standards*

See "Note 1 Basis of Presentation — *Recently Adopted Accounting Standards*" to the accompanying unaudited interim condensed consolidated financial statements.

### *Liquidity and Sources of Capital*

The Company is a borrower, and certain domestic subsidiaries are guarantors, under a revolving credit agreement with Wells Fargo Bank, N.A. as administrative agent, and certain other lenders, which provides the Company with a \$300.0 million revolving line of credit (the "Credit Facility"), and an irrevocable standby letter of credit in support of various insurance deductibles.

In May 2020, the Company entered into a third amendment to the unsecured credit agreement dated July 27, 2012, which extends the term of the Credit Agreement from July 23, 2021, to July 23, 2022.

As previously disclosed, as a proactive measure, the Company elected to draw down \$150.0 million from the Credit Facility to increase its cash position and preserve financial flexibility in light of the uncertainty resulting from the COVID-19 pandemic. The proceeds from the borrowings are available to be used for working capital, general corporate or other purposes permitted by the Credit Facility. As of September 30, 2020, the Company repaid \$75.0 million of the borrowed funds and repaid an additional \$25.0 million on October 30, 2020. Total available credit as of September 30, 2020, was \$227.5 million, including the Credit Facility and other revolving credit lines.

As of September 30, 2020, our cash and cash equivalents consisted of deposits and money market funds held with established national financial institutions. Cash and cash equivalents of \$67.0 million are held in the local currencies of our foreign operations and could be subject to additional taxation if repatriated to the United States. The Company is maintaining a permanent reinvestment assertion on its foreign earnings relative to remaining cash held outside the United States.

The following table presents selected financial information as of September 30, 2020, December 31, 2019 and September 30, 2019, respectively:

| <i>(in thousands)</i>                             | At September 30, | At December 31, | At September 30, |
|---------------------------------------------------|------------------|-----------------|------------------|
|                                                   | 2020             | 2019            | 2019             |
| Cash and cash equivalents                         | \$ 311,465       | \$ 230,210      | \$ 194,061       |
| Property, plant and equipment, net                | 246,472          | 249,012         | 250,950          |
| Goodwill, intangible assets and equity investment | 157,173          | 159,430         | 155,492          |
| Working capital                                   | 629,244          | 482,000         | 469,387          |

The following table provides cash flow indicators for the nine-month periods ended September 30, 2020 and 2019, respectively:

| <i>(in thousands)</i>           | Nine Months Ended September 30, |            |
|---------------------------------|---------------------------------|------------|
|                                 | 2020                            | 2019       |
| Net cash provided by (used in): |                                 |            |
| Operating activities            | \$ 129,618                      | \$ 149,235 |
| Investing activities            | (21,554)                        | (25,526)   |
| Financing activities            | (26,153)                        | (88,371)   |

Cash flows from operating activities result primarily from our earnings, and are also affected by changes in operating assets and liabilities which consist primarily of working capital balances. As a significant portion of our revenues are derived from manufacturing building construction materials. Our operating cash flows are subject to seasonality and are cyclically associated with the volume and timing of construction project starts. For example, trade accounts receivable is generally at its lowest at the end of the fourth quarter and increases during the first, second and third quarters.

During the nine months ended September 30, 2020, operating activities provided \$129.6 million in cash and cash equivalents, as a result of \$157.4 million from net income and \$47.5 million from non-cash adjustments to net income, which included

depreciation and amortization expense and stock-based compensation expense. Cash provided from net income was partly offset by a decrease of \$75.2 million in the net change in operating assets and liabilities, including increases of \$87.2 million in trade accounts receivable and \$7.2 million in inventory, partly offset by increases of \$21.8 million in other current liabilities and \$7.8 million in trade accounts payable.

Cash used in investing activities of \$21.6 million during the nine months ended September 30, 2020 was mainly for capital expenditures. Our capital spending in 2018, 2019 and the nine months ended September 30, 2020 was \$29.3 million, \$32.7 million and \$20.9 million, respectively, which was primarily used for machinery and equipment purchases and software in development. Based on current information and subject to future events and circumstances, new capital spending for fiscal year 2020 will be primarily for safety and equipment replacement, but may be for other capital projects, including those that provide cost savings or enable future growth.

Cash used in financing activities of \$26.2 million during the nine months ended September 30, 2020 was primarily due to the Company borrowing \$150.0 million on its credit facility, of which \$75.0 million was repaid in the third quarter of 2020, \$62.7 million to purchase 902,340 shares of the Company's common stock on the open market at an average price of \$69.46 per share and \$30.2 million to pay dividends to our stockholders.

On October 23, 2020, the Board declared a quarterly cash dividend of \$0.23 per share, estimated to be \$10.0 million in total. The dividend will be payable on January 28, 2021, to the Company's stockholders of record on January 7, 2021.

As illustrated in the table below, since 2015, the Company has repurchased over seven-and-a-half million shares of the Company's common stock, which represents approximately 15.4% of our shares of common stock outstanding at the beginning of 2015. Including dividends, we have returned cash of \$614.3 million, which represents 73.9% of our total cash flow from operations during the same period.

| <i>(in thousands)</i>          | Number of Shares Repurchased | Cash Paid for Share Repurchases | Cash paid for Dividends | Total      |
|--------------------------------|------------------------------|---------------------------------|-------------------------|------------|
| January 1 - September 30, 2020 | 902                          | \$ 62,679                       | \$ 30,399               | \$ 93,078  |
| January 1 - December 31, 2019  | 972                          | 60,816                          | 40,258                  | 101,074    |
| January 1 - December 31, 2018  | 1,955                        | 110,540                         | 39,891                  | 150,431    |
| January 1 - December 31, 2017  | 1,138                        | 70,000                          | 36,981                  | 106,981    |
| January 1 - December 31, 2016  | 1,244                        | 53,502                          | 32,711                  | 86,213     |
| January 1 - December 31, 2015  | 1,339                        | 47,144                          | 29,352                  | 76,496     |
| Total                          | 7,550                        | \$ 404,681                      | \$ 209,592              | \$ 614,273 |

The Company intends to resume its stock repurchase program in the fourth quarter of 2020. As of September 30, 2020, approximately \$37.3 million remained available under the \$100.0 million repurchase authorization, which expires December 31, 2020.

#### Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements as of September 30, 2020.

#### Inflation and Raw Materials

We believe that the effect of inflation has not been material in recent years, as general inflation rates have remained relatively low. Our main raw material is steel. As such, increases in steel prices may adversely affect our gross profit margin if we cannot recover the higher costs through price increases.

#### Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We have operations both within the United States and internationally, and are exposed to market risks in the ordinary course of our business.

## Foreign Exchange Risk

We have foreign exchange rate risk in our international operations, and through purchases from foreign vendors. Changes in the values of currencies of foreign countries affect our financial position, income statement and cash flows when translated into U.S. dollars. We estimate that if the exchange rate were to change by 10% in any one country where we have our operations, the change in net income would not be material to our operations taken as a whole.

Foreign currency translation adjustments on our underlying assets and liabilities resulted in an accumulated other comprehensive profit of \$6.2 million for the three months ended September 30, 2020, due to the effects of the weakening United States dollar in relation to almost all other currencies. Foreign currency translation adjustments on our underlying assets and liabilities resulted in an accumulated other comprehensive profit of \$3.1 million for the nine months ended September 30, 2020, due to the strengthening of the United States dollar in relation to almost all currencies.

## Interest Rate Risk

Our primary exposure to interest rate risk results from outstanding borrowings under the Credit Facility, which bears interest at variable rates. The variable interest rates on the Credit Facility fluctuate and exposes us to short-term changes in market interest rates as our interest obligation on this instrument is based on prevailing market interest rates. Interest rates fluctuate as a result of many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors that are beyond our control. As of September 30, 2020, we have \$75.0 million outstanding under the Credit Facility at an average annualized interest rate of approximately 1.30%. Currently, we do not engage in any interest rate hedging activity and a 10% change in interest rates would affect our interest expense by approximately \$0.1 million per year, assuming no changes in the amount outstanding or other variables under the Credit Facility.

## Item 4. Controls and Procedures.

*Disclosure Controls and Procedures.* As of September 30, 2020, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the chief executive officer ("CEO") and the chief financial officer ("CFO"), of the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act. Based on this evaluation, the Company's CEO and CFO have concluded that the Company's disclosure controls and procedures were effective at the reasonable assurance level. Disclosure controls and procedures are controls and other procedures designed reasonably to assure that information required to be disclosed in the Company's reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures are also designed reasonably to assure that this information is accumulated and communicated to the Company's management, including the CEO and the CFO, as appropriate to allow timely decisions regarding required disclosure.

The Company's management, including the CEO and the CFO, does not, however, expect that the Company's disclosure controls and procedures or the Company's internal control over financial reporting will prevent all fraud and material errors. Internal control over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute assurance that the objectives of the control system are met. In addition, the design of a control system must reflect the facts that there are resource constraints and that the benefits of controls must be considered relative to their costs. The inherent limitations in internal control over financial reporting include the realities that judgments can be faulty and that breakdowns can occur because of simple error or mistake. Controls also can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of controls. The design of any system of internal control is also based in part on assumptions about the likelihood of future events, and there can be only reasonable, not absolute assurance that any design will succeed in achieving its stated goals under all potential events and conditions. Over time, controls may become inadequate because of changes in circumstances, or the degree of compliance with the policies and procedures may deteriorate.

*Changes in Internal Control over Financial Reporting.* In 2016, we began the process of implementing a fully integrated ERP platform from SAP America, Inc. ("SAP"), as part of a multi-year plan to integrate and upgrade our systems and processes. The first phase of this implementation became operational, at most of our North America sales, production, warehousing and administrative locations between February 2018 and October 2020. We believe the necessary steps have been taken to monitor and maintain appropriate internal control over financial reporting during this period of change and will continue to evaluate the operating effectiveness of related key controls during subsequent periods.

As the phased implementation of this system continues, we are experiencing certain changes to our processes and procedures which, in turn, result in changes to our internal control over financial reporting. While we expect SAP to strengthen our internal financial controls by automating certain manual processes and standardizing business processes and reporting across our organization, management will continue to evaluate and monitor our internal controls as each of the affected areas evolves. For a discussion of risks related to the implementation of new systems, see Item 1A - "Risk Factors - Other Risks - *We rely on complex software systems and hosted applications to operate our business, and our business may be disrupted if we are unable to successfully/efficiently update these systems or convert to new systems.*" in the 2019 Form 10-K.

There were no changes in our internal control over financial reporting identified in management's evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act during the three months ended September 30, 2020 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II — OTHER INFORMATION

### Item 1. Legal Proceedings.

From time to time, the Company is involved in various legal proceedings and other matters arising in the normal course of business. Corrosion, hydrogen embrittlement, cracking, material hardness, wood pressure-treating chemicals, misinstallations, misuse, design and assembly flaws, manufacturing defects, labeling defects, product formula defects, inaccurate chemical mixes, adulteration, environmental conditions, or other factors can contribute to failure of fasteners, connectors, anchors, adhesives, specialty chemicals, such as fiber reinforced polymers, and tool products. In addition, inaccuracies may occur in product information, descriptions and instructions found in catalogs, packaging, data sheets, and the Company's website.

The Company currently is not a party to any legal proceedings, which the Company expects individually or in the aggregate to have a material adverse effect on the Company's financial condition, cash flows or results of operations. Nonetheless, the resolution of any claim or litigation is subject to inherent uncertainty and we could in the future, incur judgments, enter into settlements of claims or revise our expectations regarding the outcome of the various legal proceedings and other matters we are currently involved in, which could materially impact our financial condition, cash flows or results of operations. See "Note 12 — Commitments and Contingencies" to the accompanying unaudited interim condensed consolidated financial statements for certain potential third-party claims.

### Item 1A. Risk Factors

There have been no material changes to our risk factors reported or new risk factors identified since the filing of our Annual Report on Form 10-K for the year ended December 31, 2019, and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2020 and June 30, 2020.

### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

The table below presents the monthly repurchases of shares of our common stock in the third quarter of 2020.

| Period                           | (a)<br>Total Number of<br>Shares Purchased <sup>[1]</sup> | (b)<br>Average Price<br>Paid per Share | (c)<br>Total Number of Shares<br>Purchased as Part of<br>Publicly Announced Plans<br>or Programs <sup>[2]</sup> | (d)<br>Approximate Dollar Value of<br>Shares that May Yet Be<br>Purchased under the Plans or<br>Programs <sup>[2]</sup> |
|----------------------------------|-----------------------------------------------------------|----------------------------------------|-----------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------|
| July 1 - July 31, 2020           | 94                                                        | \$ 81.50                               | —                                                                                                               | \$37.3 million                                                                                                          |
| August 1 - August 31, 2020       | 1,497                                                     | \$ 102.98                              | —                                                                                                               | \$37.3 million                                                                                                          |
| September 1 - September 30, 2020 | —                                                         | \$ —                                   | —                                                                                                               | \$37.3 million                                                                                                          |
| Total                            | <u>1,591</u>                                              |                                        |                                                                                                                 |                                                                                                                         |

<sup>[1]</sup> Total number of shares purchased includes shares withheld for settlement of payroll taxes from stock-based compensation awards vested for retirement eligible employees who retired during the third quarter of 2020.

<sup>[2]</sup> Pursuant to the Board's \$100.0 million repurchase authorization that was publicly announced on December 9, 2019, which authorization is scheduled to expire on December 31, 2020.

## Item 6. Exhibits.

### EXHIBIT INDEX

|         |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|---------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1     | <a href="#"><u>Certificate of Incorporation of Simpson Manufacturing Co., Inc., as amended, are incorporated by reference to Exhibit 3.1 of its Quarterly Report on Form 10-Q filed on May 9, 2018</u></a>                                                                                                                                                                                                                                                                                                                                                      |
| 3.2     | <a href="#"><u>Amended and Restated Bylaws of Simpson Manufacturing Co., Inc., as amended, are incorporated by reference to Exhibit 3.2 of its Current Report on Form 8-K dated March 28, 2017.</u></a>                                                                                                                                                                                                                                                                                                                                                         |
| 10.1    | <a href="#"><u>Third Amendment to Credit Agreement, dated as of May 21, 2020, among the Company, as Borrower, Simpson Strong-Tie Company Inc. and Simpson Strong-Tie International, Inc., as Guarantors, the several financial institutions party to the Agreement, as Lenders, and Wells Fargo Bank, National Association, in its separate capacities as Swing Line Lender and L/C Issuer and as Administrative Agent is incorporated by reference to Exhibit 10.1 to Simpson Manufacturing Co., Inc.'s Current Report on Form 8-K dated May 27, 2020.</u></a> |
| 31.1    | <a href="#"><u>Chief Executive Officer's Rule 13a-14(a)/15d-14(a) Certifications is filed herewith.</u></a>                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| 31.2    | <a href="#"><u>Chief Financial Officer's Rule 13a-14(a)/15d-14(a) Certifications is filed herewith.</u></a>                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
| 32      | <a href="#"><u>Section 1350 Certifications are furnished herewith.</u></a>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |
| 101.INS | XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.                                                                                                                                                                                                                                                                                                                                                                                                 |
| 101.SCH | Inline XBRL Taxonomy Schema Linkbase Document                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| 101.CAL | Inline XBRL Taxonomy Calculation Linkbase Document                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| 101.DEF | Inline XBRL Taxonomy Definition Linkbase Document                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| 101.LAB | Inline XBRL Taxonomy Labels Linkbase Document                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| 101.PRE | Inline XBRL Taxonomy Presentation Linkbase Document                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| 104     | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**Simpson Manufacturing Co., Inc.**

(Registrant)

**DATE:** November 5, 2020

By /s/Brian J. Magstadt

Brian J. Magstadt  
Chief Financial Officer  
(principal accounting and financial officer)

**Simpson Manufacturing Co., Inc. and Subsidiaries**  
**Rule 13a-14(a)/15d-14(a) Certifications**

I, Karen Colonias, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Simpson Manufacturing Co., Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

**DATE:** November 5, 2020

By /s/Karen Colonias

Karen Colonias  
Chief Executive Officer

**Simpson Manufacturing Co., Inc. and Subsidiaries**  
**Rule 13a-14(a)/15d-14(a) Certifications**

I, Brian J. Magstadt, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Simpson Manufacturing Co., Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

**DATE:** November 5, 2020

By /s/Brian J. Magstadt  
 Brian J. Magstadt  
 Chief Financial Officer

**Simpson Manufacturing Co., Inc. and Subsidiaries**  
**Section 1350 Certifications**

The undersigned, Karen Colonias and Brian J. Magstadt, being the duly elected and acting Chief Executive Officer and Chief Financial Officer, respectively, of Simpson Manufacturing Co., Inc., a Delaware corporation (the “Company”), hereby certify that the quarterly report of the Company on Form 10-Q for the quarterly period ended September 30, 2020, fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934, as amended, and that information contained in such report fairly presents, in all material respects, the financial condition and results of operations of the Company.

**DATE:** November 5, 2020

By /s/Karen Colonias

Karen Colonias  
Chief Executive Officer

By /s/Brian J. Magstadt

Brian J. Magstadt  
Chief Financial Officer

*A signed original of this written statement required by Section 1350 of Chapter 63 of Title 18 of the United States Code has been provided to Simpson Manufacturing Co., Inc. and will be retained by Simpson Manufacturing Co., Inc. and furnished to the Securities and Exchange Commission or its staff on request.*

*The foregoing certification is being furnished to the Securities and Exchange Commission pursuant to § 18 U.S.C. Section 1350. It is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.*