



# LASER- FOCUSED GROWTH

ANNUAL REPORT 2022



# LEADERS IN LEVELING

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

Our innovative technology allows contractors to complete every concrete floor installation faster, flatter and with fewer people, providing a platform for customers to build successful businesses.

# HIGHLIGHTS

## FINANCIAL

### Revenue

**US\$ 133.6m**  
23bps

2022	133.6m
2021	133.3m

### Adjusted EBITDA<sup>(1,2)</sup>

**US\$ 46.0m**  
-3.8%

2022	46.0m
2021	47.8m

### Ordinary dividend per share

**US\$ 0.2778**  
-10%

2022	0.2778
2021	0.3102

### Diluted adjusted net income per share<sup>(1,3)</sup>

**US\$ 0.55**  
-9.8%

2022	0.55
2021	0.61

### Cash flow from operations

**US\$ 27.8m**  
-25%

2022	27.8m
2021	36.9m

### Net cash<sup>(4)</sup>

**US\$ 33.7m**  
-20%

2022	33.7m
2021	42.1m

#### Notes:

1. The Company uses non-US GAAP financial measures to provide supplemental information regarding the Company's operating performance. See further information regarding non-GAAP measures below.
2. Adjusted EBITDA as used herein is a calculation of the Company's net income plus tax provision, interest expense, interest income, foreign exchange gain (loss) other income (expense), depreciation, amortization, stock-based compensation and non-cash lease expense.
3. Adjusted net income as used herein is a calculation of net income plus amortization of intangibles and excluding the tax impact of stock option and RSU settlements and other special items.
4. Net cash is defined as cash and cash equivalents less borrowings under bank obligations exclusive of deferred financing costs.

## OPERATIONAL

- Investments for long-term growth
  - US\$ 9.5m Houghton, Michigan expansion project completed in 2022, expected to be fully operational in H1 2023
  - Added key personnel in 2022, prioritizing international sales and customer support roles
- Europe and Australia reported record 2022 revenues, growing 23% and 38% from 2021, respectively
- Successful introduction of the S-28EZ in 2022 was the main contributor to increased Boomed screed revenue of US\$ 67.2m in 2022 (2021: US\$ 65.4m)
- New products launched since 2019 that target entirely new market segments combined to contribute US\$ 4.2m to 2022 revenues (2021: US\$ 3.2m)
- Substantial increase in activity of international customer-led product development with extensive job site visits and innovation council events

## POST-PERIOD

- Declared a 18.0 US cents per share final 2022 ordinary dividend and a 7.7 US cents per share supplemental dividend, totaling a combined US\$ 14.2m, payable on May 5, 2023 to shareholders on the register at April 11, 2023
- Authorized a new share buyback program of an aggregate value of up to US\$ 2m to offset dilution from ongoing equity award programs, expected to be completed by the end of 2023
- Completion of US\$ 9.5m expansion of Houghton, Michigan facility, providing a 35% increase in operational capacity, completed on time and on budget and is expected to be fully operational in Q1 2023

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AT A GLANCE

# WHO WE ARE

## OUR PRODUCTS

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

Somero pioneered the Laser Screed® machine market in 1986 and has led the market ever since through continued innovation, growing our product offering from a single model to a portfolio of nearly 20 products. Our proprietary designs are protected by over 90 patents and patent applications.

→ See all products on website:  
[www.somero.com](http://www.somero.com)

## VISION

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



## VALUES

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

- A commitment to teaching and learning
- An ability to solve problems in creative ways
- Being accountable and taking ownership
- Operating with a sense of urgency
- Proactive honest communication
- Embracing and driving change
- Expressing our passion through amazing service
- Having fun

## CULTURE

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



## OUR PURPOSE

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

## OUR SERVICES

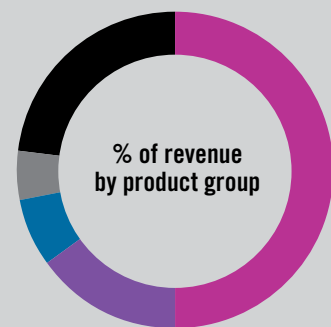
Every piece of Somero equipment is designed and built to provide maximum productivity and operation economy throughout its working life. Somero helps customers maintain that built-in value with a variety of services that include in-depth training, service contracts, extended warranty, equipment evaluation,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

## OUR APPLICATIONS

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

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

- Warehousing
- Assembly
- Commercial construction plants
- Exterior paving
- Parking structures
- Retail centers



% of revenue by product group			
Boomed screeds	50%	Remanufactured machines	5%
Ride-on screeds	15%	Other	23%
3-D Profiler System	7%		

## WHERE WE OPERATE

# A GLOBAL BUSINESS

## OUR LOCATIONS

Somero's Global Headquarters and Training Facility, and the home of the Somero Concrete Institute, is located in Fort Myers, Florida while the Company's Operations and Support Center is located in Houghton, Michigan. Somero also maintains a Sales and Service Office in Shanghai, China, as well as sales and service offices located in Chesterfield, England, New Delhi, India and our newest location, Melbourne, Australia.

➔ Read more about Market opportunities and growth on:  
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### **NORTH AMERICA, FORT MYERS, FLORIDA:**

Global headquarters and Somero Concrete Institute training facility

### **HOUGHTON, MICHIGAN:**

Production, operations and support

### **INDIA, NEW DELHI:**

Sales and service office

### **CHINA, SHANGHAI:**

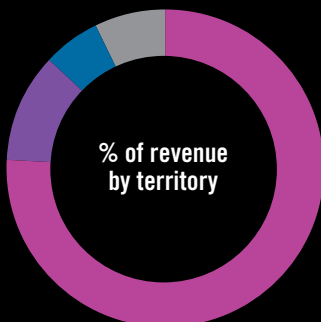
Sales, service and Somero Concrete College training facility

### **AUSTRALIA, MELBOURNE:**

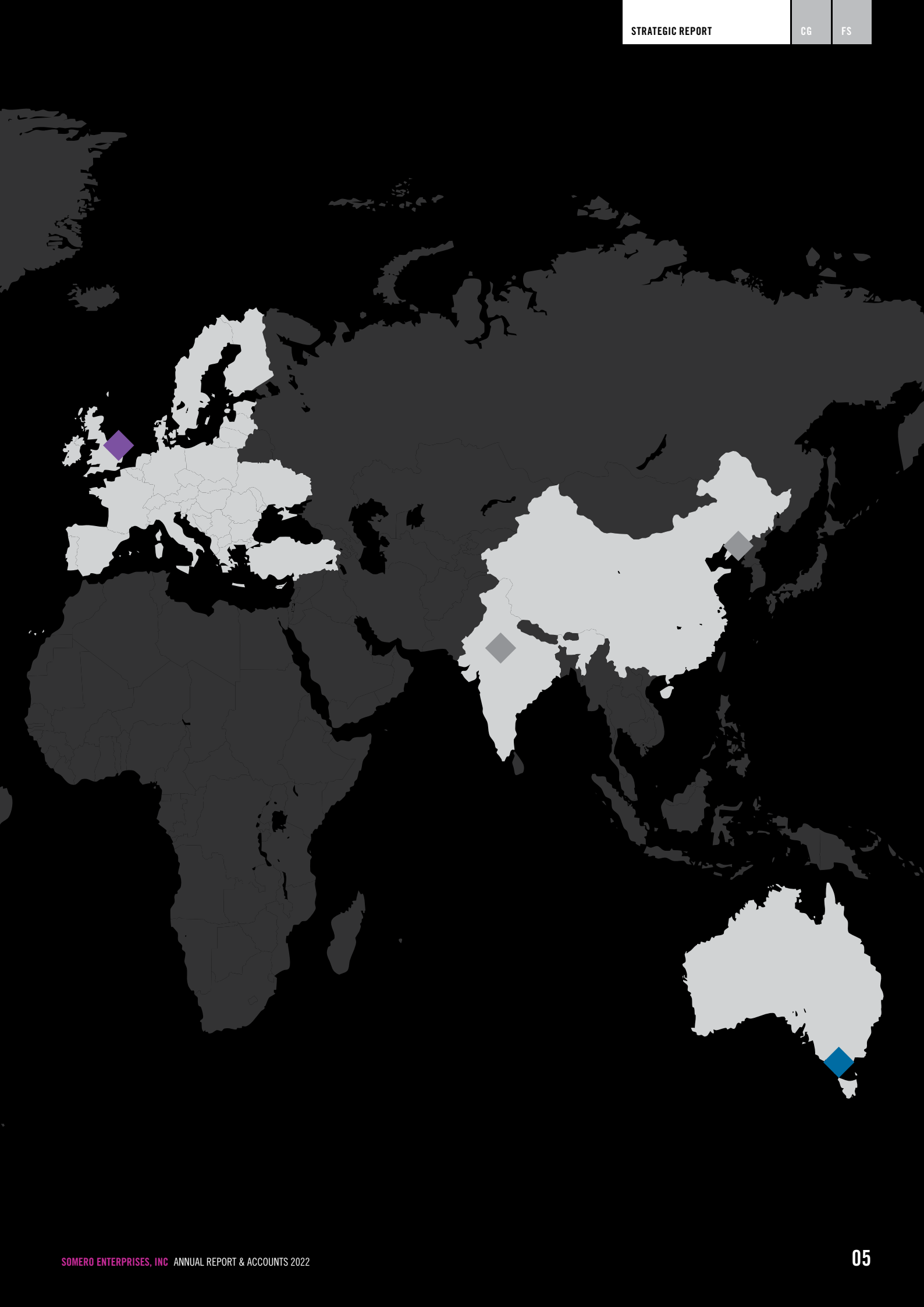
Sales and service office

### **UK, CHESTERFIELD:**

Sales and service office



North America	76%
Europe	11%
Australia	6%
Rest of World	7%



# OUTSTANDING OPERATIONAL PERFORMANCE TO DELIVER RECORD REVENUES

### Overview

2022 revenue totaled US\$ 133.6m, an all-time high for the Company that marginally surpassed the extraordinary US\$ 133.3m reported in 2021. A strong, healthy North America market, significant contributions from Europe and Australia, growing revenues from new products such as the S-28EZ, and the impact of 2022 price increases all were factors in delivering this record result. Most importantly, it was the stellar performance by our operational and support teams to overcome supply chain delays, including the decision to increase working capital investment to ensure adequate inventory levels internationally, to reliably deliver equipment to customers that was the Company's defining achievement in 2022, a tremendous accomplishment that sets Somero apart from other equipment providers in the industry.

Record 2022 revenues converted into strong profits and operating cash flow, funding business reinvestment and substantial dividend payments to shareholders. 2022 adjusted EBITDA totaled US\$ 46.0m, down 3.8% from the record US\$ 47.8m reported in 2021, a healthy level of profit that also reflects added cost from key positions filled in 2021 and 2022 that are necessary to execute the Company's growth strategy. Healthy profits converted to strong operating cash flow totaling US\$ 27.8m in 2022 (2021: US\$ 36.9m), reflecting increased working capital investment from a higher inventory level required to support international operations and maintain adequate safety stock to mitigate the risk of supply chain delays. 2022 operating cash flow funded a record US\$ 29.0m in dividend payments and US\$ 5.0m to complete the Houghton, Michigan facility expansion. With the increased working capital investment, record dividend payments and substantial capital expenditures in 2022, December 31, 2022 net cash<sup>1</sup> totaled US\$ 33.7m, down from the US\$ 42.1m reported at the end of 2021. The Company's final 2022 results were in line with guidance provided on 31 January 2023.

### Region and Product Reviews

The Company's three main markets, North America, Europe and Australia, reported combined revenue of US\$ 125.1m in 2022, slightly ahead of the US\$ 124.8m reported in 2021, representing 94% of total sales for the year. The Company's strategic focus is on these three markets, and we are pleased with the revenue growth in Europe and Australia during the year that offset a modest decline in North America. The Company will continue focusing on increasing the revenue contribution from international markets in the years to come.

### North America

North America reported 2022 revenue of US\$ 101.8m (2021: US\$ 106.6m), a 4.5% decline from the record high reported last year. While supply chain challenges, including inconsistent availability of concrete persisted during the year, the underlying US non-residential construction market conditions were healthy and active. US customers managed through the supply challenges and able to complete work on a diverse span of projects ranging from large footprint operational facilities, data centers and warehousing to smaller footprint retail, school, and medical centers. This was reflected in balanced take rates across our product portfolio comparable to prior years. The high volume of work was also evident by strong parts and service revenue reported in 2022, an amount that is included in Other revenue that increased to US\$ 21.6m in 2022 from US\$ 20.4m in 2021. As we move into 2023, while it is difficult to predict when and to what extent the aforementioned challenges will ease, our positive 2023 outlook for North America reflects an expected continuation of the strong level of activity in US non-residential construction, a view supported by customers reporting project backlogs that extend well into 2023.

### Europe

Europe reported all-time high sales in 2022 totaling US\$ 14.9m 23% growth over the US\$ 12.1m reported in 2021. The 2022 growth was driven by a number of factors including key sales and customer support resources added in 2021 and 2022, increased in-region stock levels, a focus on acquiring new customer relationships and increasing market penetration with new products in our target countries in the region. Increasing market penetration with new products will be a key element driving future performance in Europe, and the Company anticipates increasing near-term opportunities by broadening market awareness of the full range of products already in our portfolio as well as longer-term opportunities from future product development aimed at capitalizing on unmet market needs and industry-wide trends.

Steps taken to execute our growth strategy in 2022 included introducing the SkyScreed® 36 to the UK market in H2 2022, adding three European-based sales and customer support employees including a direct sales territory manager in Italy, and the introduction of a competitively priced entry-level ride-on screed, the EcoScreed.

#### Notes:

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



### Australia

Australia also reported all-time high revenue in 2022 totaling US\$ 8.4m, 38% growth from the US\$ 6.1m reported in 2021. The strong performance in Australia was underpinned by an active non-residential construction market and benefitted from the addition of sales and customer support staff in late 2021 and throughout 2022, from expanding the range of products offered in the region, and from strengthened customer relationships made possible by the change to a go-direct model in late 2020.

Steps taken to execute our Australia growth strategy in 2022 included the introduction of the SkyScreed® 36 to the market in late 2022, the addition of three customer support employees and one direct sales territory manager during the course of H2 2021 and 2022, and an increased volume of jobsite product demonstrations to build broader awareness of products that are new to the market, all important steps in our growth plan that highlight our commitment to strategic investment.

### Rest of World

Our Rest of World region, which includes China, the Middle East, India, Southeast Asia, Latin America and Korea, reported combined 2022 sales of US\$ 8.5m, equal to the 2021 total. The main contributors to 2022 revenues from this region were Latin America, India, and China.

Excluding China, the Rest of World region reported combined 2022 revenues of US\$ 7.4m, a 28% increase over the US\$ 5.8m reported in 2021. As expected, China reported a decline in 2022 to US\$ 1.1m from the US\$ 2.7m reported in 2021 due to the 2022 downsizing of the in-country China team, severe COVID-19 restrictions that limited activity and travel for large portions of the year, and an unfavorable environment for western company investment in China.

Latin America reported 2022 sales of US\$ 3.6m, an increase from the US\$ 2.2m reported in 2021, a positive result driven primarily by solid activity in Mexico and a positive contribution from Brazil. India reported 2022 revenue of US\$ 2.6m, a record for the country and an increase over the US\$ 1.9m reported in 2021. Non-residential construction activity in India is healthy and the Company experienced solid interest in our equipment, particularly compact machines best suited for smaller placements.

## INVESTMENT CASE

# OUR CORE STRENGTHS

Our performance in 2022 is a great illustration of the strength of our management team, the flexibility of our operating model, and our commitment to driving long-term growth.

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

**02** Dominant market position

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

**04** Skilled management team with extensive industry experience

**05** Attractive global growth opportunity:

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

**06** Strong and consistent financial performance:

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

# CHAIRMAN'S AND CHIEF EXECUTIVE OFFICER'S STATEMENT

## CONTINUED

### Products

2022 Boomed screed sales increased to US\$ 67.2m from the US\$ 65.4m reported in 2021, driven by the positive impact of the S-28EZ introduced at the start of 2022. Strong 2022 sales of Boomed screeds resulted from the significant volume of large footprint projects in our three main markets. 2022 sales of ride-on screeds totaling US\$ 19.5m (2021: US\$ 21.3m), 3D Profiler Systems totaling US\$ 8.7m (2021: US\$ 10.0m), and the Somero Line Dragon® totaling US\$ 1.7m (2021: US\$ 4.2m) were all down somewhat compared to 2021, a result that represents typical period to period product category fluctuation associated with variation in customer project types that trigger equipment purchases. Sales of remanufactured equipment in 2022 increased to US\$ 6.9m (2021: US\$ 4.8m) due to increased availability of trade-in equipment during the year. Other revenues increased to US\$ 28.5m in 2022 (2021: US\$ 26.7m), driven by strong part sales tied to a high utilization of equipment by customers, as well as contributions from sales of other equipment included in the category such as the Somero Broom+Cure™, S-PS50, and Copperhead.

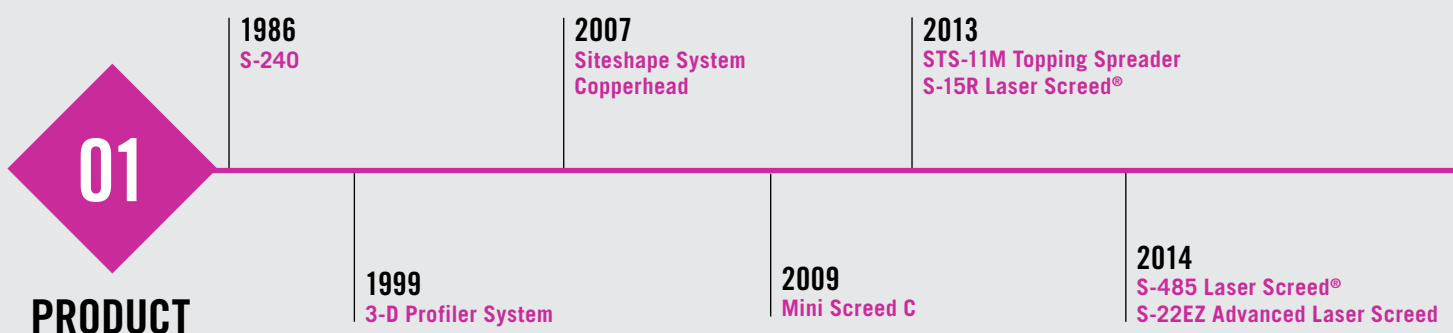
New products also contributed to the 2022 growth. On a combined basis, new products that target new market segments including the SkyScreed® 36, S-PS50, SkyStrip™ and the Somero Broom+Cure™, all introduced since 2019, contributed US\$ 4.2m in 2022 revenues, a US\$ 1.0m increase from the US\$ 3.2m reported in 2021. Included in this group total was US\$ 1.1m in sales of the SkyScreed® 36 that increased modestly from the US\$ 0.9m in 2021. The SkyScreed® 36, and the other products in this group, are highly disruptive solutions supported by a strong value proposition that deliver meaningful value to customers, but also significantly change long-established jobsite work practices and workflows resulting in a gradually building path to market acceptance.

### Strategic Progress

Somero's strategy is to capture growth from new products and in our international markets. The Company began in 1986 with an industry transforming invention, the laser screed machine, and to this day Somero remains committed to leading the industry forward by developing solutions that help customers build better, safer, and more profitable businesses. Developing new products creates value for customers and expands our growth opportunity. The Company's new product releases include entirely new, disruptive products that target new market segments as well as products closely related to our current portfolio. We remain confident the long-term opportunity in these new market segments, including the high-rise structural market, far exceeds reported 2022 revenue for the Company, but understand as with all disruptive technology, gaining broad market acceptance will be a gradual process. Looking beyond our current product offering, we continue to dedicate significant organizational time and resources to engage customers directly to develop a pipeline of ideas for future solutions that address pain points. 2022 was an active year in this regard, with extensive jobsite visits and innovation council sessions both in the US and internationally.

We are pleased to report a strong contribution from our international markets in 2022, a direct result of efforts to allocate Company resources in international markets where our value proposition resonates best. The successful results in Europe and Australia reflect the benefit of investments made over the course of 2021 and 2022 to penetrate these markets and the Company continues to see good growth opportunity in these regions.

## SOMERO'S PRODUCT TIMELINE



## Somero's journey

Somero started as a single product company in 1986 and has grown its portfolio to 20 products over 30 years, significantly expanding our addressable market. We are always looking for ways to improve the construction industry and what we can provide.

## Cashflow and Balance Sheet

Somero reported operating cash flow in 2022 of US\$ 27.8m, down from the record US\$ 36.9m reported in 2021, but a strong result nonetheless driven by healthy profit that was offset partly by a US\$ 5.3m increase in net working capital investment. The increased working capital requirement in 2022 came from a higher level of inventory required to support the Company's European and Australian operations and new products as well as to maintain adequate safety stock to mitigate supply chain delays, and we anticipate comparable inventory levels in 2023.

The Company spent US\$ 5.2m in 2022 on capital expenditures, the vast majority relating to the Houghton, Michigan expansion that was completed during the year. The Company also paid record dividends in 2022 totaling US\$ 29.0m (2021: US\$ 22.4m), reflecting the Company's ongoing commitment to disciplined return of cash to shareholders, and repurchased US\$ 1.4m in common stock under the 2021 US\$ 2.0m share buyback program.

The Company ended 2022 with US\$ 33.7m in net cash, down from the record US\$ 42.1m reported in 2021, primarily due to sizable 2022 dividend payments and increased working capital investment, but still providing a secure financial position with a December 31, 2022 net cash balance that comfortably exceeds the Board approved minimum year-end cash reserve of US\$ 25.0m.

**2015**

S-10A Laser Screed®

**2019**

Somero Line Dragon®  
SkyScreed® 25

**2021**

S-PS50  
S-28EZ  
S-15R Base Broom +Cure™

**2016**

S-158c  
S-940 Laser Screed®

**2020**

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

**20**

**PRODUCTS**

# CHAIRMAN'S AND CHIEF EXECUTIVE OFFICER'S STATEMENT

## CONTINUED

### Dividend and share buyback program

Based on the Company's strong 2022 results, secure financial position, and positive outlook for 2023, we are pleased to report that the Board has declared a final 2022 ordinary dividend of US\$ 0.18 per share, calculated based on the Board approved payout ratio of 50% of adjusted net income, and after reviewing anticipated future cash requirements for the business, the Board has also declared a supplemental dividend of US\$ 0.077 per share, calculated as a 50% distribution of December 31, 2022 cash that exceeds the Board approved year-end US\$ 25.0m minimum cash reserve. The final 2022 ordinary dividend when combined with the US\$ 0.10 per share interim dividend paid in October 2022, results in a total 2022 ordinary dividend of US\$ 0.28, a 10% decrease from the US\$ 0.31 per share 2021 ordinary dividend. Both the final 2022 ordinary dividend and the 2022 supplemental dividend will be payable on 5 May, 2023 to shareholders on the register at 11 April, 2023.

In February 2023, the Board approved a 2023 share buyback program, pursuant to which, the Board intends to carry out a buyback US\$ 2.0m of common shares in order to mitigate future dilution resulting from share issuances under the Company's equity award programs. The Company expects to complete the 2023 program, along with the remaining US\$ 0.6m portion of the 2022 buyback program, by the end of 2023.

### Our People

On behalf of the Board, we would like to thank our global employees for their impressive performance in 2022 to overcome substantial obstacles and deliver equipment reliably to our customers and deliver these outstanding results for our shareholders. We are fortunate to have strong employee retention, an important element of our variable cost business model, while also adding key positions to the organization that support our global growth plan. The average number of employees in 2022 was 216, a 7% increase over the average of 201 in 2021 when the Company was understaffed and working to catch up with a rapid increase in demand for our products. Over half of the net personnel increase related to operational staff to support increased volume, with the remaining non-operational staffing net increase focused primarily on global sales and customer support roles. The Board and management team remain as committed as ever to providing all our global employees with a rewarding and challenging working environment that is full of opportunity.

### Facility Expansion

We completed the 50,000 square foot expansion of our Houghton, Michigan facility in 2022, a project that increases our operational capacity by 35% and our facility footprint by 50%. The expanded facility can support growth in volume and in the number of products the Company offers, and improves operational efficiency and increases operational control by insourcing certain pre-assembly processes. The project was completed in line with the US\$ 9.5m budgeted cost and is expected to be fully operational in Q1 2023.

### Environmental, Social and Governance

The Board closely monitors environmental, social and governance topics that materially impact our stakeholders. These topics are

routinely discussed to ensure Somero strikes the appropriate balance of meeting shareholder expectations and addressing the concerns of key stakeholders necessary to ensure sustainability of the business. A primary material topic is the environmental impact of our business including the use of our equipment in the construction process. In 2022, we commissioned a phase two environmental study by Colorado State University that is expected to be completed shortly. The phase two study supplements the phase one study that was completed in 2021 by Middle Tennessee State University, the results of which are outlined in a white paper available on our website. The phase one study concluded the use of our laser screed machines in non-residential construction provides a number of environmental benefits, including a reduction in required manpower and concrete used in building projects that in turn reduces carbon emissions during construction that would otherwise occur from the use of alternative manual methods.

### Conclusion and Outlook

Thanks to the talent, dedication and resolve of our employees, by all measures, 2022 was a successful year under very challenging conditions. The Company reported record 2022 revenue that surpassed the extraordinary 2021 result, paid a record US\$ 29.0m in dividends to shareholders, reported all-time high revenues in our primary international markets Europe and Australia, completed a major expansion of our Houghton, Michigan facility, and made prudent, strategic investments to add personnel necessary to drive global growth. There is much to be proud of as we look back.

Looking forward, the Board maintains a positive outlook for 2023 based on the healthy, active US non-residential construction market, the positive momentum in Europe and Australia, and on opportunities for growth from new products. The Board's view on the positive market conditions is supported by direct feedback from US customers reporting strong, healthy project backlogs that extend well into 2023.

With the Board's confidence in the long-term growth opportunity from new products and in new market segments, it has committed to continue making targeted investments to add product development, global sales and customer support resources to drive this growth. With these planned added resources, combined with the impact of cost and wage inflation, we expect an increase in 2023 operating costs that will modestly exceed our traditionally targeted US\$ 2.0m.

The Board expects the Company to deliver strong revenues, profits, and cash flows to shareholders in 2023. While the risk of supply chain delays and concrete shortages in North America may persist, the healthy and active non-residential construction markets in the US, Europe and Australia form the foundation of the Company's 2023 expectations. With all factors considered, 2023 revenues are expected to be comparable with 2022, and with targeted added resources 2023 EBITDA is expected to be down modestly from 2022, and with 2023 working capital investment expected to remain elevated, year-end 2023 cash is expected to be at a comparable level to year-end 2022.

**Lawrence L. Horsch**  
Chairman

**Jack Cooney**  
Chief Executive Officer



# PREPARING FOR OUR NEXT PHASE OF GROWTH

The US\$ 9.5m expansion of our Houghton, Michigan Global Operations and Support Offices, completed in 2022, added a 35% increase to operational capacity sufficient to support a business with over US\$ 200.0m in revenue. In addition, the expansion allows the Company to bring in-house certain pre-assembly processes allowing for greater control of the production process.



# GLOBAL MARKET OVERVIEW

## Our Locations

### NORTH AMERICA

#### Drivers of growth

- New product introductions
- New technology to upgrade fleet of installed equipment
- Fleet additions
- Shortage of skilled labor in concrete construction industry
- Accelerated shift toward e-commerce driving demand for warehousing

#### Market dynamics

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

### EUROPE

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

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

### AUSTRALIA

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

- Meaningful installed base of equipment
- Positive non-residential market conditions
- Stable economic environment

### REST OF WORLD

- New product introductions
- Growing demand for quality concrete flooring
- Move toward e-commerce driving demand for warehousing
- Increasing shortage of skilled labor in concrete construction industry

- Current market penetration very low
- Meaningful opportunities in the Middle East, Latin America and India

**Ongoing Priorities**

**Percentage of total 2022 revenues**

- Introducing product innovations to the market
- Increasing the efficiency and depth of sales and support coverage
- Increasing the reach of our training capabilities and industry expertise

**76%**

- Introducing product innovations that resonate with the local market
- Increasing market penetration of new products
- Increasing efficiency and depth of sales and support coverage in targeted portions of the region
- Increasing the reach of our training capabilities and industry expertise

**11%**

- Introducing product innovations that resonate with the local market
- Increasing market penetration of new products
- Increasing efficiency and depth of sales and support coverage
- Increasing the reach of our training capabilities and industry expertise

**6%**

- Increasing market penetration of new and legacy products
- Increasing efficiency of sales and support coverage in targeted portions of the region
- Supporting promotion of wide-placement theory and quality standards for concrete floors

**7%**



**THESE EXCELLENT RESULTS WERE MADE POSSIBLE BY OUR TALENTED, DEDICATED EMPLOYEES WHO WORKED HARD TO OVERCOME PERSISTENT SUPPLY CHAIN CHALLENGES TO RELIABLY DELIVER EQUIPMENT AND MEET CUSTOMERS' NEEDS.**

**Jack Cooney**  
Chief Executive Officer

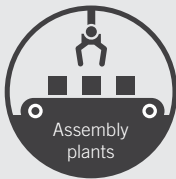
**43%**

**of total revenue generated by 8 products launched since 2017**

# OUR BUSINESS MODEL

## WHAT WE DO

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



## WHO WE WORK WITH

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

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







**ON THE BASIS OF THE INVESTMENTS WE HAVE MADE AND THE COMPANY'S CONTINUED FINANCIAL STRENGTH, WE BELIEVE THE COMPANY IS POSITIONED WELL TO CAPTURE FUTURE GROWTH FROM NEW PRODUCTS AND IN INTERNATIONAL MARKETS FOR YEARS TO COME.**

**Jack Cooney**

Chief Executive Officer

## WHAT MAKES US DIFFERENT

### Our innovative product leadership

- Pioneered Laser Screed® machine market in 1986
- Product portfolio grown to 20 products
- Designs protected by over 100 patents/applications
- Product development fueled by customer engagement

### Our industry expertise, training and support

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

## OUR BENEFICIARIES

### Key benefits to our employees

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

### Key benefits to our customers

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

### Key outcomes for building owners and end-users

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

### Key benefits to our investors

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

## OUR STRATEGY

## STRATEGIC OBJECTIVE



### PRODUCT INNOVATION

Pushing the industry forward with innovative solutions to help customers increase speed, productivity & safety and deliver high-quality concrete slabs for building owners.



### INTERNATIONAL EXPANSION

Growing our presence in targeted global markets by promoting wide-placement theory & quality concrete flooring standards, and increasing penetration across our range of products.

## PROGRESS DURING THE YEAR

- S-28EZ significantly contributed to 2022 Boomed screed growth
- Growing contribution from new products
- Active period of jobsite visits, customer innovation councils – sets stage for next round of new products

### 2022 New Product Revenues\*

# US\$ 4.2m

### Current Patents & Applications

# 100+

- Increased size of in-country team directly serving Australia
- Introduced SRS-4 in Australia, planning 2022 SkyScreed® introduction in Europe & Australia

### Non-Operational Staff Based Outside US

# 25%

### 2022 International Revenue Growth %

# 19%

## ONGOING PRIORITIES

To expand Somero's product offering, and consequently increase the Company's addressable market opportunity, by developing proprietary, innovative and often disruptive solutions for customers that improve the efficiency, productivity, quality and safety of their work.

To allocate resources to targeted international markets where the value proposition of the Company's products is strongest in order to promote the benefits of wide-placement and quality concrete flooring standards, and increase market penetration with new and existing products.



## PRODUCT INNOVATION



### S-28EZ LASER SCREED

The S-28EZ introduced an innovative counter-weight system that allowed a 5 foot extension to the boom over the S-22EZ, increasing productivity for customers. The S-28EZ was the primary driver of growth in boomed screed sales in 2022.

#### MEETING MARKET NEEDS

### SRS-4 LASER SCREED

The SRS-4 is a prime example of the importance of new products in growing our international markets. Once introduced to Australia in 2021, the SRS-4 became a significant contributor to the Company's performance in 2021 and 2022. The versatility of the machine, the easier transport and lighter weight are important factors that filled customer needs in the market.





## INTERNATIONAL GROWTH



# TARGETED INTERNATIONAL GROWTH



## INTERNATIONAL GROWTH



# EUROPE

Our Chesterfield, UK facility is the base from which our European sale and customer support team operate. In addition, the Company has sales and customer support professionals placed in key countries across the region.

# 23%

growth in 2022 revenues compared to 2021

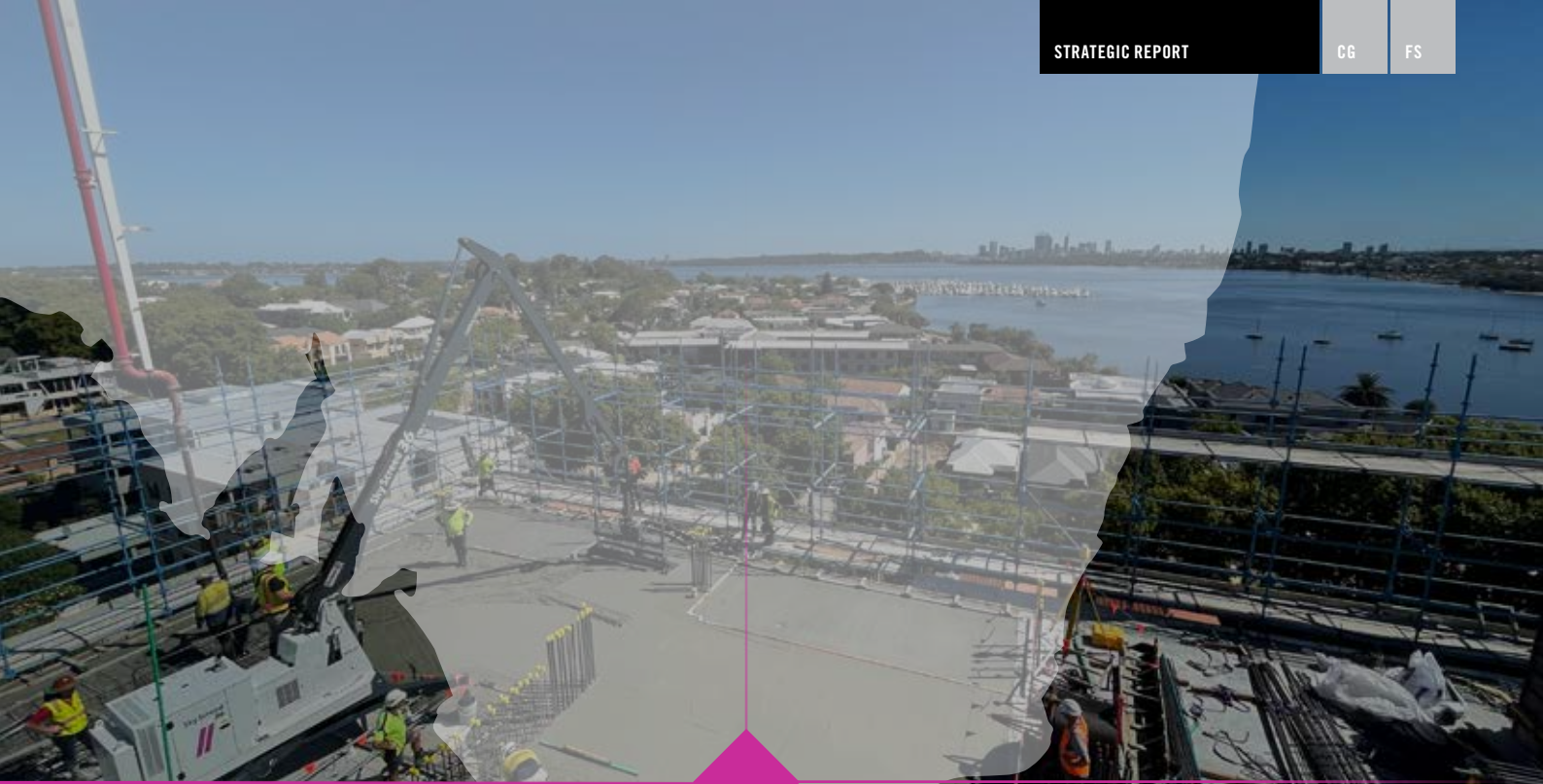
### GOING GLOBAL...

## EXPANDING OUR RANGE OVERSEAS

The growth in Europe came from establishing new customer relationships and increasing the market penetration of a broader portion of the product line-up. Adding sales and customer support resources in H2 2021 and 2022, with plans to add to the teams in 2023 and beyond, will drive future performance in these target markets.







# AUSTRALIA

Our facility in Melbourne, Australia supports our in-country team of seven professionals located in Melbourne and across the continent.

# 38%

growth in 2022 revenues compared to 2021

## EXPANSION

### OUR NEWEST LOCATION

Australia, home to our third largest installed base of equipment, provides an attractive growth opportunity for the Company to establish new customer relationships and gain traction with a broader portion of the Company's product offering.

The growth in this market since 2020 has been driven by the direct sales and customer support teams we established at the end of 2020 when the Company decided to go-direct in this market.

# us\$ 7.3m

growth in 2022 revenue compared to 2020



# FINANCIAL REVIEW

## Summary of financial results

	Year ended December 31	
	2022 US\$ 000 except per share data	2021 US\$ 000 except per share data
<b>Revenue</b>	133,590	133,334
<b>Cost of sales</b>	57,431	56,454
<b>Gross profit</b>	76,159	76,880
<b>Operating expenses</b>		
Sales, marketing and customer support	14,289	12,644
Engineering and product development	2,600	2,106
General and administrative	16,170	16,989
<b>Total operating expenses</b>	33,059	31,739
<b>Operating income</b>	43,100	45,141
<b>Other income (expense)</b>		
Interest expense	(18)	(45)
Interest income	62	171
Foreign exchange impact	(1,342)	(239)
Other	(1,001)	(408)
<b>Income before income taxes</b>	40,801	44,620
<b>Provision for income taxes</b>	9,682	9,788
<b>Net income</b>	31,119	34,832
	<b>Per Share US\$</b>	<b>Per Share US\$</b>
Basic earnings per share	0.56	0.62
Diluted earnings per share	0.55	0.61
Basic adjusted net income per share <sup>(1), (3), (4)</sup>	0.56	0.62
Diluted adjusted net income per share <sup>(1), (3), (4)</sup>	0.55	0.61
<b>Other data</b>		
Adjusted EBITDA <sup>(1), (2), (4)</sup>	46,026	47,780
Adjusted net income <sup>(1), (3), (4)</sup>	31,000	34,835
Depreciation expense	1,322	1,173
Amortization of intangibles	135	153
Capital expenditures	5,367	6,245

### Notes:

- Adjusted EBITDA and Adjusted net income are not measurements of the Company's financial performance under US GAAP and should not be considered as an alternative to net income, operating income or any other performance measures derived in accordance with US GAAP or as an alternative to US GAAP cash flow from operating activities as a measure of profitability or liquidity. Adjusted EBITDA and Adjusted net income are presented herein because management believes they are useful analytical tools for measuring the profitability and cash generation of the business. Adjusted EBITDA is also used to determine pricing and covenant compliance under the Company's credit facility and as a measurement for calculation of management incentive compensation. The Company understands that although Adjusted EBITDA is frequently used by securities analysts, lenders, and others in their evaluation of companies, its calculation of Adjusted EBITDA may not be comparable to other similarly titled measures reported by other companies.
- Adjusted EBITDA as used herein is a calculation of net income plus tax provision, interest expense, interest income, foreign exchange gain (loss), other income (expense), depreciation, amortization, stock-based compensation and non-cash lease expense.
- Adjusted net income as used herein is a calculation of net income plus amortization of intangibles and excluding the tax impact of stock option and RSU settlements and other special items.
- The Company uses non-US GAAP financial measures to provide supplemental information regarding the Company's operating performance. The non-US GAAP financial measures presented herein should not be considered in isolation from, or as a substitute to, financial measures calculated in accordance with US GAAP. Investors are cautioned that there are inherent limitations associated with the use of each non-US GAAP financial measure. In particular, non-US GAAP financial measures are not based on a comprehensive set of accounting rules or principles, and many of the adjustments to the US GAAP financial measures reflect the exclusion of items that may have a material effect on the Company's financial results calculated in accordance with US GAAP.

## Net income to adjusted EBITDA reconciliation and Adjusted net income reconciliation

	Year ended December 31	
	2022 US\$ 000	2021 US\$ 000
<b>Adjusted EBITDA reconciliation</b>		
Net income	31,119	34,832
Tax provision	9,682	9,788
Interest expense	18	45
Interest income	(62)	(171)
Foreign exchange impact	1,342	239
Other	1,001	408
Depreciation	1,322	1,173
Amortization	135	153
Stock-based compensation	1,165	1,052
Non-cash lease expense	304	261
<b>Adjusted EBITDA</b>	<b>46,026</b>	<b>47,780</b>
<b>Adjusted net income</b>		
Net income	31,119	34,832
Amortization	135	153
Tax impact of stock option & RSU settlements	(254)	(150)
<b>Adjusted net income</b>	<b>31,000</b>	<b>34,835</b>

## Revenues

The Company's consolidated revenues increased modestly to US\$ 133.6m (2021: US\$ 133.3m). Company revenues consist primarily of sales from Boomed screed products, which include the S-28EZ, S-22EZ, S-15R, S-10A and SRS-4 Laser Screed® machines, sales from Ride-on screed products, which are drive through concrete machines that include the S-485, S-940, and S-158C Laser Screed® machines, Remanufactured machine sales, 3-D Profiler System®, Somero Line Dragon®, SkyScreed® and Other revenues which consist primarily of revenue from sales of parts and accessories, sales of other equipment, including the Broom + Cure™, SkyStrip™, S-PS50, service, training and shipping charges.

Boomed screed sales increased to US\$ 67.2m (2021: US\$ 65.4m) due to continued strong demand for machines used for large slab on grade placements, particularly the S-22EZ and the S-28EZ, and higher sales prices. Ride-on screed sales decreased to US\$ 19.5m (2021: US\$ 21.3m) due to lower volume, while Remanufactured sales increased to US\$ 6.9m (2021: US\$ 4.8m) due to higher volume. Sales of 3D Profiler System® and the Somero Line Dragon® decreased to US\$ 8.7m (2021: US\$ 10.0m) and US\$ 1.7m (2021: US\$ 4.2m), respectively, due to lower volume. Sales of the SkyScreed® remained relatively consistent contributing slightly over US\$ 1.0m, and Other revenues increased to US\$ 28.5m (2021: US\$ 26.7m) primarily due an increase in parts sales and sales of the S-PS50, which was launched at the beginning of 2022.

## Revenue breakdown by geography

	North America US\$ in millions		EMEA <sup>(1)</sup> US\$ in millions		ROW <sup>(2)</sup> US\$ in millions		Total US\$ in millions			
	2022	2021	2022	2021	2022	2021	2022		2021	
							Net sales	% of Net sales	Net sales	% of Net sales
Boomed screeds <sup>(3)</sup>	49.7	50.4	9.9	8.9	7.6	6.1	67.2	50.3%	65.4	49.1%
Ride-on screeds <sup>(4)</sup>	14.4	16.8	1.8	1.3	3.3	3.2	19.5	14.6%	21.3	16.0%
Remanufactured machines	5.2	4.4	0.9	–	0.8	0.4	6.9	5.2%	4.8	3.6%
3-D Profiler System	8.2	9.6	0.1	0.1	0.4	0.3	8.7	6.5%	10.0	7.5%
Somero Line Dragon®	1.6	4.1	0.1	0.1	–	–	1.7	1.3%	4.2	3.1%
SkyScreed®	1.1	0.9	–	–	–	–	1.1	0.8%	0.9	0.7%
Other <sup>(5)</sup>	21.6	20.4	2.9	2.2	4.0	4.1	28.5	21.3%	26.7	20.0%
<b>Total</b>	<b>101.8</b>	<b>106.6</b>	<b>15.7</b>	<b>12.6</b>	<b>16.1</b>	<b>14.1</b>	<b>133.6</b>	<b>100.0%</b>	<b>133.3</b>	<b>100.0%</b>

### Notes:

- EMEA includes Europe, Middle East, and Scandinavia.
- ROW includes Australia, Latin America, India, China, Korea, and Southeast Asia.
- Boomed Screeds include the S-28EZ, S-22EZ, S-15R, S-10A and SRS-4.
- Ride-on Screeds include the S-940, S-485, and S-158C.
- Other includes parts, accessories, services and freight, as well as other equipment such as the SkyStrip™, Somero Broom + Cure™, STS-11M Topping Spreader, Copperhead, Mini Screed C, and S-PS50.



# FINANCIAL REVIEW

## CONTINUED

Units by product line	2022	2021
Boomed screeds	187	218
Ride-on screeds	166	181
Remanufactured machines	32	26
3D Profiler System	71	84
Somero Line Dragon®	41	110
SkyScreed®	3	3
Other <sup>(1)</sup>	51	50
<b>Total</b>	<b>551</b>	<b>672</b>

Notes:

1. Other includes equipment SkyStrip™, Somero Broom + Cure™, STS-11M Topping Spreader, Copperhead, Mini Screed C, and S-PS50.

Sales to customers located in North America contributed 76% of total revenue (2021: 80%), sales to customers in EMEA (Europe, Middle East, and Scandinavia) contributed 12% (2021: 9%) and sales to customers in ROW (Australia, Latin America, India, China, Korea, and Southeast Asia) contributed 12% (2021: 11%).

Sales in North America were US\$ 101.8m (2021: US\$ 106.6m) down 5% driven mostly by lower sales volume of legacy Boomed Screeds and Somero Line Dragon®, partially offset by an increase in Remanufactured machines and price increases across most of the product line. Sales in EMEA were US\$ 15.7m (2021: US\$ 12.6m), which is an increase of 24% primarily due to high volume across most of the product line. Sales in ROW were US\$ 16.1m (2021: US\$ 14.1), representing a 14% increase driven primarily by higher sales volume of Boomed Screeds, particularly in Australia.

Regional sales	US\$ in millions	
	2022	2021
North America	101.8	106.6
Europe	14.9	12.1
Australia	8.4	6.1
Rest of World <sup>(1)</sup>	8.5	8.5
<b>Total</b>	<b>133.6</b>	<b>133.3</b>

Notes:

1. Includes Latin America, India, Southeast Asia, Middle East, and Korea.

### Gross profit

Gross profit decreased slightly to US\$ 76.2m (2021: US\$ 76.9m), with gross margins decreasing to 57% (2021: 58%) primarily due to higher input costs and the annualized cost of employees hired in the second half of 2021.

### Operating expenses

Operating expenses increased by US\$ 1.4m to US\$ 33.1m (2021: US\$ 31.7m). The increase is primarily due the annualized cost of employees hired in the second half of 2021 and during 2022 in selling, marketing, customer support and engineering and product development, coupled with higher than normal inflation, which were partly offset by lower general and administrative expense.

### Debt

As of December 31, 2022, the Company had no outstanding debt. In August 2022, the Company updated its credit facility to a US\$ 25.0m secured revolving line of credit, with a maturity date of August 2027. The interest rate on the revolving credit line is based on the BSBY Index plus 1.25%. The Company's credit facility is secured by substantially all its business assets.

### Other income (expense)

Other income (expense) was US\$ 1.0m of other expense in 2022, compared to US\$ 0.5m of other expense in 2021, primarily due to a higher realized and unrealized foreign currency exchange loss.

## Provision for income taxes

The provision for income taxes was US\$ 9.7m in 2022 compared to US\$ 9.8m in 2021. Overall, Somero's effective tax rate changed to 23.7% in 2022 from 21.9% in 2021.

## Earnings per share

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

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

	Year ended December 31	
	2022 US\$ 000	2021 US\$ 000
Income available to stockholders	31,119	34,832
Basic weighted shares outstanding	55,443,830	56,133,366
Net dilutive effect of stock options and restricted stock units	661,193	692,173
Diluted weighted average shares outstanding	56,105,023	56,825,539
	<b>Per Share US\$</b>	<b>Per Share US\$</b>
Basic earnings per share	0.56	0.62
Diluted earnings per share	0.55	0.61
Basic adjusted net income per share	0.56	0.62
Diluted adjusted net income per share	0.55	0.61

# RISK MANAGEMENT

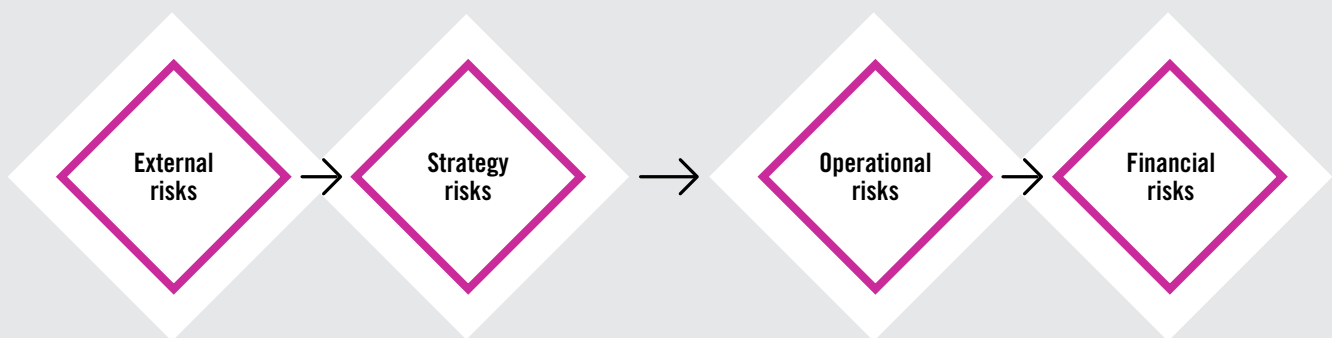
Active risk management is essential for Somero to drive successful operations. The Company is impacted by various types of risks including strategic and external risks as well as business risks such as operational and financial risks. Somero monitors and minimizes these risks in a structured and proactive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

## Risk management framework

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

### STRATEGIC RISKS

### MANAGEABLE RISKS



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

**Policies  
Corporate governance**

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

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

The evaluation includes consideration of how internal control systems can be improved. In 2022, we continued to enhance our data security measures that included additional front-end protection to reduce the risk of unauthorized access to Company data and more robust data storage and recovery capabilities.

# PRINCIPAL RISKS AND UNCERTAINTIES

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

- ER External Risks
- SR Strategy Risks
- OR Operational Risks
- FR Financial Risks

## Flexible cost structure OR

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

## Data security FR

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

## Bank obligations FR

In August 2022, the Company entered into an amended credit facility that included a US\$ 25.0m secured revolving line of credit that will mature in August 2027. The Company's credit facility is secured by substantially all its business assets.

## Employee retention OR

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

## Economic and industry conditions ER

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

## Product development SR

Somero invests significantly in product development and introduces new products each year. Somero's product development effort is a customer-driven process focused on customer needs and value requirements. New products are meaningful contributors to the Company's growth. In 2022, sales of the SkyScreed®, SkyStrip™, the Somero Broom +Cure™, and the S-PS50 combined to contribute US\$ 4.2m in incremental 2021 sales.

## Product replacement demand SR

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

## Global market penetration SR

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

## Interest rates FR

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

## Liquidity FR

The Company's principal liquidity needs are for payroll, lease obligations, purchases of component parts and other inventory items, payments for professional services from third-party providers, and interest and principal payments on its long-term debt. The Company's primary sources of liquidity are cash balances, cash provided by operations and its available revolving line of credit. Operations are primarily funded through existing cash. The Company maintains its cash balances in banks in each market where it has a presence. The bank accounts facilitate operational transactions with the Company's employees, customers, and vendors in-country. The Company's banks serve retail and commercial clients, with a heavier weighting on retail. Within the commercial customer base, the banks serve a range of industries. The diversification of the customer base mitigates the risk of being negatively impacted by any singular sector or vertical. Also, the Company considers the adequacy of the banks' capitalization to ensure sufficient security. The Company evaluates the allocation of its cash balances amongst the banks routinely to ensure adequate liquidity in each of its markets where it has a presence, and overall banking diversification.

## Capital resources FR

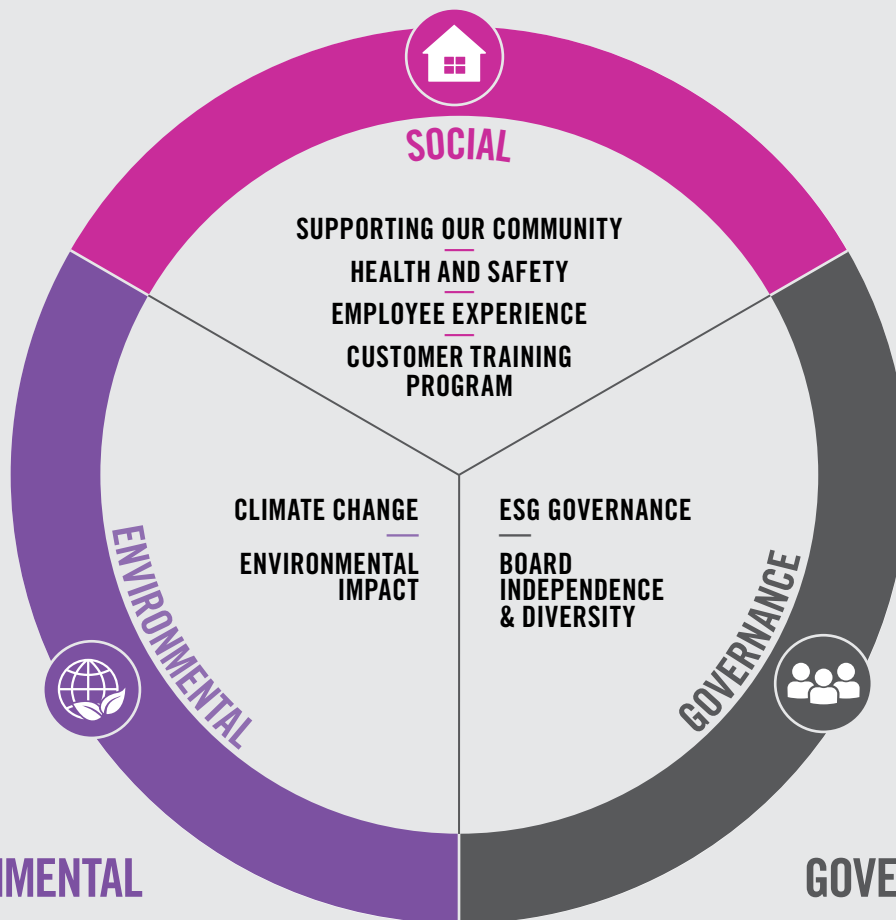
Currently, the Company's capital expenditure plans include investment in tools and equipment to increase the efficiency of the assembly and remanufacturing processes and regular replacement of information technology equipment. One element of Somero's strategy is to identify and acquire businesses that have complementary products and services. Somero may finance such future acquisitions from internally generated funds, bank borrowings, public or private securities offerings or some combination of these methods. In addition, the Company may issue debt or equity securities as some or all of the consideration for such acquisitions. Somero cannot predict the level of financing that may be required in connection with future acquisitions. The amended credit facility allows management access to funding if needed to implement its strategic plan, successfully introduce new products into the market and maximize opportunities from investments in emerging markets. As of December 31, 2022, the Company had not drawn any amounts under the revolving portion of its Citizens Bank Financing Agreement.

# OUR ESG FRAMEWORK

Our goal is to strike the right balance between shareholder expectations and the needs and concerns of our employees and customers, the communities we live in, and the environment. In 2022 we made meaningful progress in the early stages of our long-term ESG journey. The Company will continue to monitor and improve upon metrics outlined on page 29.

## SOCIAL

Somero is dedicated to fostering an open and inclusive working environment for our employees, ensuring their safety and wellbeing at all times, supporting a training program for our customers and giving back to the community in which we operate.



## ENVIRONMENTAL

Somero is committed to making a lasting positive impact on the environment in which we operate and doing our bit to reduce our environmental footprint.

## GOVERNANCE

Maintaining strong, diverse leadership and accountability on ESG issues is critical and Somero takes this responsibility seriously in how we manage ESG across our business.



## ENVIRONMENTAL

### Climate Change

**Climate change is a critical issue facing humanity today and Somero is committed to ensuring our own operations maintain a low carbon footprint and optimal energy efficiency in support of this effort.**

Our products generally help the broader environment by minimizing concrete waste in construction projects, avoiding excess emission of CO<sub>2</sub>.

**Commitment:** To reduce our carbon footprint and improve energy efficiency across our operations.

**Metrics:** Total energy consumption, CO<sub>2</sub> production.

**2022:** Commissioned a phase two environmental study by Colorado State University that is expected to be completed shortly. The phase two study

supplements the phase one study that was completed in 2021 by Middle Tennessee State University, the results of which are outlined in a white paper available on our website. The phase one study concluded the use of our laser screed machines in non-residential construction provides a number of environmental benefits, including a reduction in required manpower and concrete used in building projects that in turn reduces carbon emissions during construction that would otherwise occur from the use of alternative manual methods.

**Action for 2023:** Formalize an environmental policy.

### Environmental Impact

**Somero understands that natural resources are finite and our business has a responsibility to protect the environment by minimizing waste and water use.**

**Commitment:** To reduce the amount of waste across our operations and minimize our water and electrical power consumption.

**Metrics:** Waste to landfill, recycling, total water and electrical power consumption.

**2022:** Established baseline of current water and electrical power consumption from operations and evaluated opportunities to increase efficiency.

Collaborated with a third party provider to install water-efficient wash bay as part of the Remanufactured reconditioning process.

Implemented cardboard recycling program and installed cardboard recycling equipment. Recycled 26,000 pounds of cardboard, equivalent to 13 tons of CO<sub>2</sub> emissions.

Converted factory lighting to LED, resulting in 28,000 kilowatts savings per year.

Reduced water and electrical power consumption by 3.5% and 4.3% respectively compared to 2021.

Our Remanufactured machines, which are customer machines that are taken in on trade toward the purchase of new machines, reconditioned and resold, ultimately reduce waste to landfill. Sales of Remanufactured machines grew 44% in 2022 compared to 2021.

## SOCIAL

### Supporting Our Community

**Somero cares deeply about our community and supporting local charities is an important part of that.**

**Commitment:** To financially support local charities and communities in the areas where we operate and support our employees with volunteering and fundraising efforts wherever possible.

**Metrics:** Funds donated to charitable causes, hours donated to volunteering.

**2022:** Provided financial support to local charities. Financial support of 18 non-profit organizations, including donation to Ukraine humanitarian efforts, totaling over US\$ 170,000.

Provided "days of service" where the Company/employees give time in support of the charities.

Created employee volunteer initiative program resulting in participation of 67 employees and 342 volunteer total hours toward 9 non-profit organizations.

### Health and Safety

**The health and safety of our team, both in the workplace and on site, is of the highest priority at Somero and we work meticulously to ensure the highest safety standards possible to protect the welfare of our people.**

**Commitment:** We monitor and constantly improve all aspects of health and safety in the workplace and onsite; providing employees with the appropriate training, equipment and support to do their jobs safely.

**Metrics:** Recordable incidents, maintain ISO 9001 accreditation, safety training delivered.

**2022:** Workplace training at Somero facilities to educate employees on safety with a goal to limit/reduce workplace injuries.

Expanded safety training program reducing the Company's Occupational Safety and Health Administration (OSHA) incident rate by 27% from 2021, and within range of industry average (excluding COVID-19 related cases). Over 1,200 hours of training provided in 2022.

Maintained less than 1% turnover rate.

Developing new products/solutions for customers that improve job-site safety.

### Employee Experience

**Fostering a positive company culture and environment where our employees have ample opportunity to learn and develop is key for retaining our team and growing our workforce.**

**Commitment:** We grow and maintain a strong and supportive company culture and provide training and development opportunities to our colleagues to support their growth and progression.

**Metrics:** Employee feedback, number of internal training hours delivered to employees.

**2022:** Conducted 452 days of employee customer support trainings to expand knowledge base.

Regular, open engagement with employees through Company-wide meetings, bi-annual performance reviews, and through a variety of social events.

### Customer Training Program

**Somero are proud to support our customers by providing unique training opportunities that develop a strong pipeline of skilled workers, benefiting the industry as a whole.**

**Commitment:** We deliver a training program to our customer base that supports a pipeline of skilled talent within the concrete construction industry.

**Metrics:** Number of external training hours delivered.

**2022:** Held 348 training events globally, of which 25% were held at the Company's training facility and the remainder onsite at customer locations. Training events held at the Company's training facility included 410 attendees representing 186 individual companies.

The Company offers virtual training via its Learning Management System (LMS). In 2022, over 2,000 users accessed LMS for over 1,000 hours of training videos.

Key members of the Company's management team actively participated in concrete construction association events, including the American Society of Concrete Contractors (ASCC), and the American Concrete Institute (ACI).

Providing training opportunities that leverage the Somero Concrete Institute to increase the pool of skilled labor for the concrete construction industry.

## GOVERNANCE

### Board Independence & Diversity

**Ensuring our Board is independent, operates honestly and is representative of the diverse voices in our company is key to our success.**

**Commitment:** To ensure equal and fair opportunities among our Board members with appropriate levels of independence.

**Metrics:** % of Board by gender, % of Board by ethnicity, number of independent Board members.

**2022:** Appointed of 4th independent Board member Anne Ellis, see page 33 for details.

### ESG Governance

**ESG topics are now a critical part of business as usual and ensuring strong leadership and accountability on these matters is of great importance to Somero.**

**Commitment:** To have transparent accountability on ESG issues and report on performance each year for the benefit of our stakeholders.

**Metrics:** Executive sponsor assigned to each material issue, ongoing ESG agenda item in Board meetings.

**Ongoing Action:** Enhance ESG reporting to increase awareness of ongoing Company efforts to balance shareholder/stakeholder interests.

# HOW WE ENGAGE

## OUR APPROACH

Developing a comprehensive ESG strategy that includes regular engagement with stakeholders on material topics.

## OUR STAKEHOLDERS

### ENVIRONMENTAL

The net carbon impact of our operations is modest and use of our equipment reduces CO<sub>2</sub> emissions.

- Broader environmental goals

### COMMUNITIES

Somero strives to make a lasting, positive impact in the community and on the environment

- Local charities

### EMPLOYEES

Our dedicated and talented employees deliver great results for our customers and shareholders. We strive to create a work environment where employees thrive and grow.

- Working environment, culture and values
- Opportunities for learning and career development

### CUSTOMERS

Somero's customer relationships are built on years of providing solutions and world-class training and support.

- New product development
- High-quality products and services
- Training and education
- Job-site safety

### BOARD/INVESTORS

Somero prioritizes an open, transparent dialogue with our Board and shareholders regarding our business performance and strategy.

- Financial performance
- Business strategy
- Market conditions
- Risk management
- Return of capital
- Governance

## ENGAGEMENT

- Investing to increase energy efficiency of operations
- Study on CO<sub>2</sub> environmental impact of Somero equipment

- Supporting and donating to local charities, and industry education programs that include total donations of over \$170,00 in 2022

- Training programs
- Investing in remote working tools
- Performance management

- Direct sales/support
- Customer-led product development
- Trade shows
- In-person and virtual information and training sessions
- Support and actively partake in industry associations

- Virtual roadshows
- Recorded presentations
- Trading updates
- Enhancing Board independence and diversity
- Monthly meetings

## CASE STUDY

### THE USE OF SOMERO'S LASER SCREEDS REDUCES CO<sub>2</sub> EMISSIONS DURING THE CONSTRUCTION PROCESS

In 2022, Somero commissioned a phase two study by Colorado State University as a follow-up to the research study by Middle Tennessee State University that concluded the use of Somero laser screed equipment to replace a manual process to place concrete slabs reduces CO<sub>2</sub> emissions by eliminating concrete waste and reducing remediation work after placement.





## BOARD OF DIRECTORS

# OUR TEAM

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### LAWRENCE L. HORSCH

#### Non-Executive Chairman of the Board

Mr. Horsch, age 89, came to Somero in October 2009 with extensive experience having served on 26 company boards, invested in 30 venture projects and conducted four corporate turnarounds. He co-founded SciMed Life Systems prior to its merger with Boston Scientific Corporation, after which he served on the Boston Scientific Corporation board. Mr. Horsch currently serves as the Chairman of Leuthold Funds Inc. and Pioneer Sales Group. Mr. Horsch has been a business consultant since 1990. He is a graduate of the University of St. Thomas, received an MBA in Finance from Northwestern University, and is a Chartered Financial Analyst.

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### JOHN T. (JACK) COONEY

#### Chief Executive Officer and Director

Mr. Cooney, age 77, joined Somero in December 1997 and has served as its Chief Executive since that time. He has been a Director of the Company since August 2005. Mr. Cooney has 33 years of experience in various senior management and sales and marketing positions. From 1995 to 1997, Mr. Cooney served as the Chief Executive Officer of Advance Machine Company, a US \$145m industrial equipment manufacturer located in Minneapolis, Minnesota, USA. From 1990 to 1995, he was the Vice President of Sales and Marketing, as well as the Vice President of Manufacturing, at Ganton Technologies, an aluminum die caster and precision machine business located in Wisconsin, USA. Mr. Cooney has an Associate's degree in Industrial Engineering from Central New England College and a Master of Business Administration degree from College of St. Thomas.

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### JOHN YUNCZA

#### President and Director

Mr. Yuncza, age 52, joined Somero in May 2015 to serve as Chief Financial Officer. Mr. Yuncza has nearly 30 years of experience in various finance and senior management roles. Most recently, Mr. Yuncza served as Chief Financial Officer of Datamax-O'Neil, a subsidiary of Dover Corporation. Prior to his role at Datamax-O'Neil, Mr. Yuncza held a variety of senior financial roles at Pegasus Communications, Legg Mason Wood Walker, and Fifth Third Bancorp, in addition to serving as an Audit Manager at KPMG LLP. Mr. Yuncza earned a Bachelor of Science degree from St. Joseph's University in Philadelphia and an MBA from the Yale School of Management.

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### HOWARD E. HOHMANN

#### Executive Vice President of Sales Worldwide, Director

Mr. Hohmann, age 62, joined Somero in 1997 and currently serves as Executive Vice President of Sales, Marketing and Customer Service Worldwide. Mr. Hohmann also developed and managed Somero's Field Support Team and was part of its Product Development Team. Mr. Hohmann brings nearly three decades of career expertise in the concrete industry, previously working as Founder, Owner and President of one of the eastern United States' largest and most successful concrete contractors, placing all aspects of concrete floors from coast to coast. Mr. Hohmann was also a concrete flooring consultant, teaching procedures, practices and designs, alongside the inventors of the Somero Laser Screed. Additionally, he has developed and managed sales in emerging markets, and managed both marketing and inside sales departments. Mr. Hohmann also served in the U.S. Marine Corps.

## VINCENZO LICAUSI

### Chief Financial Officer, Secretary and Director

Mr. LiCausi, age 49, joined Somero in September 2018 as Vice President of Finance & Controller. Mr. LiCausi has over 20 years of experience in various finance and senior management roles. Most recently, Mr. LiCausi served as Vice President of Finance of Conformis Inc., a global NADAQ listed orthopedics manufacture and marketer. Prior to his role at Conformis, Mr. LiCausi held a variety of senior financial roles at Cambridge Heart, C.R. Bard, Gillette, and Tropicana (PepsiCo) in addition to serving as an Audit Senior at Deloitte & Touche LLP. Mr. LiCausi earned a Bachelor of Science degree in Accountancy from Bentley University in Boston, Massachusetts.

## ANNE ELLIS

### Non-Executive Director

Ms. Ellis, age 65, is a professional engineer with four decades of experience in the architecture, engineering, and construction industry. Ms. Ellis served as the 90th president (2013-2014) of the American Concrete Institute. She is coauthor of the "Concrete Design and Construction" section of the Standard Handbook for Civil Engineers, Fifth Edition. Currently, Ms. Ellis is the executive director of the Charles Pankow Foundation, and she serves as non-executive director on the board of GEI Consultants and Alpha Corporation. She also chairs the Board of Directors of the National Institute of Building Sciences and serves by invitation on the Industry Leaders Council of the American Society of Civil Engineers. From 2008-2016, she served in a series of growth-enabling corporate roles including director of innovation at AECOM, a \$20 billion publicly traded, professional services and construction company with 100,000 employees operating in 154 countries. From 2004-2018, Ms. Ellis served by appointment of five U.S. cabinet secretaries to their federal advisory committee addressing matters of energy and trade policy. Ms. Ellis was inducted into the National Academy of Construction in 2019.

## THOMAS M. ANDERSON

### Non-Executive Director

Mr. Anderson, age 72, retired after 30 years of service as President and Chief Executive Officer of Schwing America, Inc. to become the President and Managing Partner of Schwing Bioset, Inc. He also served as the Managing Partner of Concrete Pump Repair from 1989 to 2013. Mr. Anderson participated in compensation decisions for all three companies. He is also a partner in Engineered Chassis Systems, a specialty truck manufacturer. He spent 22 years on the Board of Directors of the American Concrete Pumping Association and five years as the President of the Concrete Pump Manufacturers Association. Mr. Anderson previously served on the Board of Directors of Somero Enterprises, Inc. from 1997 to 1999 prior to the sale of the Company to Dover Corporation. Along with his affiliation with Somero, Mr. Anderson stays active in the concrete industry with an investment in Southwest Concrete Pumping based in Colorado.

## ROBERT SCHEUER

### Non-Executive Director

Mr. Scheuer, age 66, has served in a series of senior executive roles at Dover Corporation, a US\$ 8bn Fortune 500 company. Most recently, from 2011 to 2014, Mr. Scheuer was Chief Financial Officer and Vice President Finance of Dover Engineered Systems, a US\$ 3.8bn business segment of Dover Corporation. In this role, Mr. Scheuer provided strategic guidance to the 14 operating company CEOs/CFOs in the segment and directed over 140 global employees in FP&A, budgeting, forecasting, acquisitions, compliance, accounting and reporting. Prior to this role, from 2007 to 2011 Mr. Scheuer served as Chief Financial Officer and Vice President of Finance of Dover Industrial Products, a US\$ 2.4bn business segment of Dover Corporation and from 1998 to 2007 as Chief Financial Officer and Vice President of Finance of Dover Industries, a US\$ 1.2bn business segment of Dover Corporation. Prior to his tenure at Dover Corporation, from 1986 to 1998, Mr. Scheuer served in a variety of leadership roles at Kraft Foods, Inc., most recently as Controller of the Grocery Products Division, a US\$ 1.7bn multi-brand portfolio with six major product lines. Mr. Scheuer received a Bachelor of Science degree from DePaul University and an MBA from Northwestern University J.L. Kellogg School of Management.



# CORPORATE GOVERNANCE REPORT

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

In accordance with Principle 1 of the Code, the Company's business model and strategy, including key challenges in their execution and how these are addressed, are set out on pages 14 – 17 of this Annual Report.

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

Principle 3 requires that Somero take into account wider stakeholder and social responsibilities and their implications for long-term success. Investors and shareholders are invited to learn more about Somero's business and relationship strategies on pages 28 – 31 of this Annual Report. Somero strives to develop long-standing relationships with customers and shareholders alike; maintaining open lines of communication, availability to conduct site tours and a robust library of online content that demonstrates the unique value proposition of our products. For further information, please contact Somero at [www.somero.com](http://www.somero.com).

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

An ongoing review of the effectiveness of the system of internal control has been maintained and has taken account of any material developments since the year end.

In accordance with Principle 5 of the Code, the Board comprises eight Directors, four of whom are Executive Directors and four of whom are Non-Executive Directors.

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

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

The time commitment required from each Director is set out in his/her letter of appointment. The Nomination Committee is responsible for considering annually whether each Director is able to devote sufficient time to his/her duties. During the year, there were 12 regularly scheduled monthly Board meetings, two Audit Committee meetings, one Remuneration Committee meeting and one Nomination Committee meeting.

In accordance with Principle 6 of the Code, the Board's membership consists of the individuals whose credentials are outlined on pages 32-33 of this report.

On joining the Board, new Directors will receive a comprehensive induction. It is expected that Directors will receive regular updates on legal, regulatory and governance issues. The Chairman, together with the Company Secretary, ensures that the Directors' knowledge is kept up to date on key issues and developments pertaining to the Group, its operational environment and to the Directors' responsibilities as members of the Board. The Directors have access to the advice and services of the Company Secretary and are empowered to take independent professional advice in the furtherance of their duties at Somero's expense, where necessary.

In accordance with Principle 7 of the Code, the Board periodically conducts a formal performance evaluation and considers the balance of skills, experience, independence and knowledge of the Company on the Board and its diversity, including gender, how the Board works as a unit, and other factors relevant to its effectiveness. In November 2017, the Board adopted a retirement policy stating that directors shall not be re-nominated for election after reaching 75 years of age, provided that the Board may approve exceptions to the policy based on a recommendation from the Nominating Committee. If a director reaches the age of 75 during his or her term, the director will offer to resign in writing. The Board may choose to accept, defer, or reject the offer to resign.

The composition and functioning of the Board were reviewed and evaluated by the Nomination Committee and it was determined the Board as constructed serves the Company's needs for proper governance.

In respect of compliance with Principle 8 of the Code, a critical aspect of the Company's strategy is to be perceived as a trusted partner of our customers. In order to achieve this objective, a culture of teamwork, openness, integrity and professionalism forms a key element of our Company principles and values which sets out the standards of behavior we expect from all our employees. The Board supports and promotes the principles of equal opportunities in employment and promotes a culture where every employee is treated fairly, as discussed on page 30-31 of this report. The Board and management conduct themselves ethically at all times and promote a culture in line with the standards set out in the employee handbook. Principal risks and uncertainties facing the business, as outlined on pages 26-27 of this report, are regularly monitored by the Board along with the processes in place to mitigate those risks.

Principle 9 requires Somero to maintain governance structures and processes that are fit for purpose and support good decision-making by the Board. Somero has a number of committees: the Audit Committee, the Remuneration Committee and the Nomination Committee. For further information on the individual roles of Board members or for information in respect of the roles of each committee, please refer to the additional information regarding Somero's Board of Directors on page 32-33 of this Annual Report, and the additional discussion regarding the committees to follow in this report. The Board is responsible for formulating, reviewing and approving the Group's strategy, budgets and corporate actions, and is collectively responsible for the long-term success of Somero. The Board strives for good and effective governance, with informed and transparent decisions contributing to the delivery of the Group's strategy. The Chief Executive Officer is responsible for maintaining strategic focus and direction and the President, who reports to the Chief Executive Officer is responsible for implementing the strategy and overseeing the management of the Group through the executive and management teams. The executive and management teams, which are overseen by the Chief Executive Officer with input from the Directors, are responsible for day-to-day management of the Group's business and its overall trading, operational and financial performance.

In accordance with Principle 10 of the Code, we are committed to maintaining good communications with our shareholders, and have put in place appropriate processes and structures to allow that to happen. Somero communicates with its shareholders through its annual report, trading announcements, the AGM and in the manner set out in the commentary in relation to Principle 2. Somero announces the result of the proxy votes cast for each resolution proposed at each general meeting of its shareholders immediately after such meeting, and a range of corporate information (including all historical annual reports and notices of meetings, announcements, dividend information and presentations) is made available on Somero's "Investors" website page. The Board also receives regular updates on the views of shareholders through reports from its brokers and from Directors following shareholder engagement. Analysts notes are reviewed and discussions held with Somero's brokers to maintain a broad understanding of varying investor views. Furthermore, the Company has a number of committees: the Audit Committee, the Remuneration Committee and the Nomination Committee. A review of the effectiveness of each of the committees is carried out annually.

## The Audit Committee

The Audit Committee comprises Messrs. Scheuer, Anderson, Horsch and Mrs. Ellis, and is chaired by Mr. Scheuer. The Audit Committee determines and examines any matters relating to the financial affairs of the Company, including the terms of engagement of the Company's auditors and, in consultation with the auditors, the scope of the audit.

It receives and reviews reports from management and the Company's auditors relating to the interim and annual accounts and the accounting and internal control systems in use throughout the Company. In addition, it ensures that the financial performance, position, and prospects of the Company are properly monitored and reported on. The Audit Committee has unrestricted access to the Company's auditors.

	Year ended December 31, 2022 US\$ 000	Year ended December 31, 2021 US\$ 000
Audit	158	154
Tax	260	265
Other	–	–

## The Remuneration Committee

The Remuneration Committee comprises Messrs. Anderson, Scheuer, Horsch and Mrs. Ellis, and is chaired by Mr. Anderson.

The Remuneration Committee measures the performance of the Executive Directors and key members of senior management as a prelude to recommending their annual remuneration, bonus awards and awards of share options to the Board for final determination.

The Remuneration Committee also makes recommendations to the Board concerning the allocation of share options to employees.

## The Nomination Committee

The Nomination Committee comprises Messrs. Horsch, Anderson, Scheuer and Mrs. Ellis, and is chaired by Mr. Horsch.

The Nomination Committee regularly reviews the structure, size and composition (including the skills, knowledge and experience) required of the Board compared to its current position. It also makes recommendations to the Board with regard to any changes, and gives full consideration to succession planning for Directors and other senior executives in the course of its work, taking into account the challenges and opportunities facing the Company, and what skills and expertise are therefore needed on the Board in the future. It is responsible for identifying and nominating for the approval of the Board, candidates to fill Board vacancies as and when they arise.

The Nomination Committee supports equal opportunities in employment and advancement and opposes all forms of unlawful or unfair discrimination on the grounds of color, race, religion, age, nationality, gender or marital status. Full and fair consideration is given to applications for employment from disabled people. All our benefits are accessible to every staff member and we encourage and support personal and professional development. In addition to the three permanent committees discussed above, in accordance with applicable law and best practice the Board establishes ad hoc committees from time to time to deal with discrete matters within the Board's remit in an efficient and effective manner.

The Company adopted a code for directors' and applicable employees' share dealings. The directors will comply with Rule 21 of the AIM rules relating to directors' dealings and will take all reasonable steps to ensure compliance by Somero's applicable employees. In 2016, the Company updated its dealing code to ensure compliance with the EU Market Abuse Regulations which came into effect in 2016 and apply to companies listed on AIM.

# AUDIT COMMITTEE REPORT

## Statement by the Chair of the Audit Committee

On behalf of the Board, I am pleased to present our Audit Committee Report for the year ended December 31, 2022.

## Audit Committee Responsibilities

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

The Audit Committee acts independently to ensure the interests of shareholders are protected in relation to financial reporting, internal controls and risk management. The Audit Committee is responsible for all aspects of the financial reporting of the business and has considered not only the integrity of financial reporting, but also how the challenges faced by the Company may flow through into internal control and the procedures implemented to sufficiently mitigate risk.

The Company's risk management is a permanent focus of the Audit Committee. Details of the Company's risk management, including principal risks and uncertainties, are shown on pages 26-27 of this Annual Report. The Audit Committee is also responsible for monitoring the integrity of the consolidated financial statements of the Company and any formal announcements relating to the Company's financial performance, including a review of the Company's accounting policies and areas of significant judgement and uncertainty.

The Audit Committee has unrestricted access to the Company's auditors and manages the relationship between the auditors and the Company. The independence of the auditors is kept under review and is considered at least annually with the aid of a memorandum presented to the Audit Committee by the auditors.

## Audit Committee Membership and Meetings

The Audit Committee is chaired by me, Robert Scheuer. The other members are Messrs. Anderson, Horsch and Mrs. Ellis. Each of the Committee members are Non-Executive Directors of the Company, as set out in further detail on pages 32-33 of this Annual Report.

At the invitation of the Audit Committee, representatives of the Company's auditors usually attend Committee meetings.

The Audit Committee meets at least two times per year. The meetings are attended by the CEO, President and CFO, as well as the external auditor, Whitley Penn LLP ("Whitley Penn"). In 2022, all meetings had full attendance. Additionally, the Committee meets the external auditor twice per year without executive management present, to discuss the auditor's remit and any issues arising.

## 2022 Auditor Tender Process

Noting the tenure of Whitley Penn as the Company's auditor, and corporate best practice to tender at least every ten years, the Board, on the recommendation of the Audit Committee, decided to put the Company's statutory audit for 2023 out to competitive tender. The tender process commenced and completed in H2 2022 under the oversight of the Audit Committee.

The Audit Committee identified the following key attributes for which it would base its recommendation and invited three firms, including Whitley Penn, to provide written proposals:

- Qualifications;
- Industry experience;
- Independence and quality;
- Audit approach and use of technology;
- Team structure, continuity, and rotation;
- Transition approach;
- Materiality assessment;
- Assessed key audit risks;
- Approach to controls;
- Approach to technical accounting issues;
- Approach to disclosure compliance; and
- Reporting to the Audit Committee.

After careful consideration, at the recommendation of the Audit Committee, the Board reappointed Whitley Penn as the Company's auditor on November 15, 2022 for the year-end December 31, 2023. The recommendation of the Audit Committee to reappoint Whitley Penn was predicated on the basis that Whitley Penn effectively satisfied the attributes set forth above, including a complete rotation of the audit team starting with the 2023 audit, including engagement partner, concurring partner and quality control partner. Furthermore, additional team rotation will occur, with engagement partner rotation occurring at least every five years.

## Robert Scheuer

Chair of the Audit Committee

March 8, 2023

# DIRECTORS' REMUNERATION REPORT

	Cash salary 2022	Cash bonus 2022	Bonus paid in common shares 2022 <sup>(1)</sup>	Total salary and bonus in respect of 2022	Salary 2023	Restricted stock units held at 31 Dec 2022
<b>Executive Directors</b>						
J Cooney	\$552,436	\$197,013	–	\$749,449	<b>\$580,057</b>	142,773
J Yuncza	\$403,635	\$143,947	\$35,987	\$583,569	<b>\$423,817</b>	94,971
V LiCausi	\$303,745	\$86,659	\$21,665	\$412,069	<b>\$318,932</b>	47,729
H Hohmann	\$372,229	\$132,747	–	\$504,976	<b>\$390,841</b>	96,207
<b>Non-Executive Directors</b>						
L Horsch	\$150,739	–	–	\$150,739	<b>\$158,276</b>	–
T Anderson	\$107,648	–	–	\$107,648	<b>\$113,031</b>	–
A Ellis	\$107,648	–	–	\$107,648	<b>\$113,031</b>	–
R Scheuer	\$107,648	–	–	\$107,648	<b>\$113,031</b>	–

## Notes:

- The amount included in the 2022 bonus that was paid in common shares in lieu of cash under the Company's Equity Bonus Plan, as described in Note 15 to the consolidated financial statements. At the discretion of the Remuneration Committee and based upon employee election, up to 100% of annual bonus and commission amounts can be paid in the form of common shares.
- Beginning in 2020, the full Board fee was paid in cash, and no RSUs or other equity instrument were issued to Non-Executive Directors as part of their compensation.
- No options were held by any directors at 31 December 2022.

## Remuneration policy

The Company's policy is to provide executive remuneration packages to attract, motivate and retain Directors of the high caliber required and to reward them for enhancing value to stockholders. The performance measurement of the Executive Directors and the determination of their annual remuneration package are undertaken by the Remuneration Committee consisting solely of Non-Executive Directors. The Non-Executive Directors receive annual increases as determined by the full Board. At the end of 2019, the Company engaged an independent third-party consultant to benchmark the compensation structure and level for Executive and Non-Executive Directors. The results of this study were reviewed by the Remuneration Committee to assess the fairness and competitiveness of the Company's compensation for Executive and Non-Executive Directors in comparison to peer companies and with regard to the U.S. labor market. In framing remuneration policy, the Remuneration Committee has given consideration to the requirements of the Code.

## Components of remuneration

The components of remuneration are:

- basic salary and benefits determined by the Remuneration Committee and reviewed annually;
- bonuses that are based solely on the performance and profitability of the Company. The maximum executive director bonus opportunity for 2022 and 2023 is 100% of salary; and
- stock option and restricted stock unit incentives. The Company has not made stock option awards in recent years. Its policy is to make an award of restricted stock units to Executive Directors at 40% of salary in the first quarter of each financial year as further described later in this report.

## Basic salary

An Executive Director's basic salary is determined by the Remuneration Committee at the beginning of each year and when an individual changes position or responsibility. Base salaries and Non-Executive Director fees for 2022 and 2023 are set out in the table above. All salaries and fees were increased by 5.0% effective 1 January 2023 in line with the general salary increase across the employee base and Non-Executive Directors.

## Annual bonus

In the year ended December 31, 2022, the Executive Directors earned bonuses as shown in the table above.

Bonus earned for 2022 was determined based on Company performance with variable payouts along a sliding scale ranging from 0%-100%. On-target bonus is in the range of 40% to 50% of base salary. At the discretion of the Remuneration Committee and based upon employee election, up to 100% of annual bonus and commission amounts can be paid in the form of common shares.

Bonuses paid to the Company's Executive Directors are determined entirely based on Company performance. Each year, Company performance targets are established and approved by the Remuneration Committee. At year end, actual results are compared to established targets and the bonus earned is determined along a sliding scale that could result in no payout up to a maximum capped at two times the target bonus. For 2022, the annual established targets approved by the Remuneration Committee included revenue and EBITDA targets.

The annual bonus will operate in a similar manner in 2023.

# DIRECTORS' REMUNERATION REPORT CONTINUED

## Directors' contracts

The Company has entered into employment agreements with Executive Directors and certain members of senior management. The terms of these agreements range from 6 to 18 months and include non-compete and non-disclosure provisions as well as providing for defined severance payments in the event of termination or change in control. If any existing contract of employment is breached by the Company in the event of termination, the Company would be liable to pay, as damages, an amount approximating the net loss of salary and contractual benefits for the unexpired notice period. The Remuneration Committee will seek to ensure that the Director fulfills obligations to mitigate losses and will also give consideration to phased payments where appropriate.

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

## Equity incentives, Restricted Stock Units

The Remuneration Committee approves the grant of equity awards to Executive Directors under the Company's discretionary equity incentive schemes. All equity awards issued by the Company in 2022 are governed by Somero's 2020 Equity Incentive Plan (the "2020 Plan") that was adopted by the Remuneration Committee in 2019. The 2020 Plan is a ten-year Plan making up to 5.6 million of equity awards (stock options, restricted stock units or common shares) available to be granted over a ten-year period until 2030, which is 10% of the 55.8 million shares currently issued and outstanding.

The Company's policy is to make awards of Restricted Stock Units ("RSU") to Executive Directors with a value at award of 40% of salary in the first quarter of each financial year. These awards vest after three years subject to continued employment.

The Remuneration Committee has determined that aside from service period requirements, performance criteria should not be applied to these awards. The Remuneration Committee has determined that equity awards are critical incentives necessary to attract, retain and reward key organizational talent including Executive Directors. The Company's key employees, including its Executive Directors, are US-based and awards of this structure are common practice in the USA and so using this award type is essential to achieve the objectives outlined above.

The Remuneration Committee also notes that the industry in which the Company operates is cyclical, further supporting the commercial case for making awards of this structure. The awards provide simple powerful alignment between Executive Directors and the Company and Shareholders. The Remuneration Committee notes that restricted share awards are provided for by the UK Investment Association Principles of Remuneration. These Principles note that award levels should be discounted by at least 50% to the grant level of awards with performance conditions attached to reflect higher certainty of vesting. With awards set at 40% of salary, Somero's approach is in line with guidance.

Further, this plan was implemented in part due to the significant difficulty for US-based employees to access the AIM market due to securities legislation and administration issues. This plan has resulted in a steady increase in equity ownership across Executive Directors and Key Managers.

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

In 2022, Executive Directors are awarded RSUs as part of their annual incentive compensation plans. Awarded RSUs vest three years from the date of the grant and require continued employment for the period. In 2022, 95,644 RSUs were exercised or forfeited, 82,512 units issued, leaving a balance of 381,680 units as of December 31, 2022. For more information, see Note 14 within the Notes to the Financial Statements

Details of Director's restricted stock units awarded, exercised and outstanding during 2022 are set out in the table below.



## Director restricted stock units

Director	Grant Date	January 1, 2022	Award (Exercise)	Cancelled	December 31, 2022	Weighted average grant date fair market value per unit (USD)	Weighted average grant date total fair market value (USD)	Vesting date	Fully vested date
<b>Executive Directors</b>									
H Hohmann	3/12/2022	–	23,123	–	23,123	6.44	148,894	3/11/2025	3/11/2025
H Hohmann	3/15/2019	24,525	(24,525)	–	–	5.10	125,161	3/14/2022	3/14/2022
H Hohmann	3/13/2020	46,512	–	–	46,512	2.83	131,629	3/13/2023	3/13/2023
H Hohmann	3/13/2021	26,572	–	–	26,572	5.09	135,360	3/12/2024	3/12/2024
J Cooney	3/12/2022	–	34,317	–	34,317	6.44	220,975	3/11/2025	3/11/2025
J Cooney	3/15/2019	36,397	(36,397)	–	–	5.10	185,749	3/14/2022	3/14/2022
J Cooney	3/13/2020	69,030	–	–	69,030	2.83	195,355	3/13/2023	3/13/2023
J Cooney	3/13/2021	39,426	–	–	39,426	5.09	200,839	3/12/2024	3/12/2024
J Yuncza	3/12/2022	–	25,074	–	25,074	6.44	161,457	3/11/2025	3/11/2025
J Yuncza	3/15/2019	23,455	(23,455)	–	–	5.10	119,700	3/14/2022	3/14/2022
J Yuncza	3/13/2020	44,484	–	–	44,484	2.83	125,890	3/13/2023	3/13/2023
J Yuncza	3/13/2021	25,413	–	–	25,413	5.09	129,456	3/12/2024	3/12/2024
V LiCausi	3/12/2022	–	14,152	–	14,152	6.44	91,128	3/11/2025	3/11/2025
V LiCausi	3/15/2019	11,267	(11,267)	–	–	5.10	57,500	3/14/2022	3/14/2022
V LiCausi	3/13/2020	21,369	–	–	21,369	2.83	60,474	3/13/2023	3/13/2023
V LiCausi	3/13/2021	12,208	–	–	12,208	5.09	62,189	3/12/2024	3/12/2024
<b>Non-Executive Directors</b>									
L Horsch	3/15/2019	6,843	(6,843)	–	–	5.10	34,923	3/14/2022	3/14/2022
T Anderson	3/15/2019	4,887	(4,887)	–	–	5.10	24,940	3/14/2022	3/14/2022
B Scheuer	3/15/2019	3,133	(3,133)	–	–	5.10	15,989	3/14/2022	3/14/2022

Restricted stock unit award is 40% of Executive Director's salary based on the closing share price of an ordinary share on the date of grant, which is deemed to be fair market value.

The Company has not made awards of restricted stock units to Non-Executive Directors since 2019.

## Director ordinary shares

	Ordinary Shares	
	January 1, 2022	December 31, 2022
L Horsch	46,000	46,000
J Cooney	614,634	614,634
J Yuncza	130,867	147,402
H Hohmann	73,662	73,662
V LiCausi	48,346	56,084
T Anderson	–	–
A Ellis	–	–
R Scheuer	25,000	25,000

At our AGM in June 2022, we voluntarily put our Remuneration Report to an advisory resolution as we have in previous years. 27.8m votes (88.7 of votes cast) were cast in favour of this resolution with 3.55m (11.3%) votes cast against. Proxy advisers noted that the detail of individual limits on Restricted Stock Units was not provided, noted that Restricted Share Units are not subject to performance conditions and noted increases in base salaries and Non-Executive Director fees.

In response, this report includes individual limits under the company's RSU policy, which are set at modest levels, and we have set out in greater detail above why it is essential to award RSUs to Executive Directors. Salary increases for 2023 are in line with those of the wider workforce. Restricted stock units

## DIRECTORS' REMUNERATION REPORT CONTINUED

The remuneration of the Non-Executive Directors is determined by the Board and is based upon independent surveys of fees paid to Non-Executive Directors of similar companies. The remuneration paid to each Non-Executive Director in the year to December 31, 2022 was subject to Board approval. The letters of appointment and terms are listed in the following chart.

Director	Class	Date of appointment	Termination date
L Horsch	II	June 9, 2020	2023 AGM
T Anderson	II	June 9, 2020	2023 AGM
V LiCausi	II	January 3, 2022	2023 AGM
J Cooney	III	June 15, 2021	2024 AGM
H Hohmann	III	June 15, 2021	2024 AGM
A Ellis	III	January 3, 2022	2024 AGM
J Yuncza	I	June 14, 2022	2025 AGM
R Scheuer	I	June 14, 2022	2025 AGM

### Restricted stock units

In conjunction with awards to Executive and Non-Executive Directors, the Board approves restricted stock unit ("RSU") to select employees under the terms of its 2020 Equity Incentive Plan. Awarded RSUs vest three years from the date of the grant and require continued employment for the period. In 2022, a total of 190,174 RSUs were exercised or forfeited, and 176,808 units were issued, leaving a balance of 667,990 units as of December 31, 2022. For more information, see Note 14 within the Notes to the Financial Statements.

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

# DIRECTORS' REPORT

The Directors present their Annual Report and the audited financial statements for the year ended December 31, 2022.

## Activities

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

## Review of business

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

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

## Results and dividends

The audited results for the year are set out in detail below. Dividends equal to US\$ 29.0m were paid in 2022. A 25.5 US cents per share dividend was declared for the period ending December 31, 2022, with a record date of April 11, 2023, payable on May 5, 2023.

## Performance graph

The market price of the shares at December 31, 2022 was 375p. The range during the 2022 period of trading was 360.0p to 598.0p.



Somero stock is traded on the LSE AIM exchange and is therefore quoted in Pounds Sterling. The market price of the shares at December 31, 2022 was 375.0p. The range during the 2022 period of trading was 360.0p to 598.0p.

## DIRECTORS' REPORT CONTINUED

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

	Amount	% holding
Hargreaves Lansdown, stockbrokers (EO)	4,760,177	8.53
Close Brothers Asset Management	3,742,140	6.70
Interactive Investor (EO)	3,219,943	5.77
Unicorn Asset Management	2,714,400	4.86
Chelverton Asset Management	2,540,274	4.55
Schroder Investment Management	2,428,298	4.35
Societe Generale (Awaiting custodian response)	2,390,914	4.28
Canaccord Genuity Wealth Management (Inst)	2,347,569	4.21
abrdrn	2,294,135	4.11
AJ Bell, stockbrokers (EO)	1,989,265	3.56
River and Mercantile Asset Management	1,872,626	3.35
Allianz Global Investors	1,752,379	3.14

### Other financial arrangements

#### Quantitative and qualitative disclosure about market risk

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

#### Foreign currency risk

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

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

#### Payments to creditors

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

#### Corporate social responsibility

Somero Enterprises believes, as a good corporate citizen, it must care about the communities it is involved in, keep the environment healthy, provide a safe and rewarding place to work and behave ethically in all its business dealings. For more information regarding Somero's approach to social responsibility, please refer to the Stakeholder Engagement section on pages 30-31 of this Annual Report.

#### Donations

During the year, the Company made no political donations. Charitable donations were made in the amount of US\$ 170,219 for 2022. For more information regarding Somero's community support, please refer to the Stakeholder Engagement section on pages 30-31 of this Annual Report.

## Employment policies

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

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

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

## Director training

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

## Health and safety

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

## Environment

It is our intention to take all reasonable measures to conduct our business activities so that damage to the environment and pollution is minimized. While, as an assembly operation our energy consumption is comparably low and net carbon footprint minimal, Somero continues to evaluate and invest in ways to improve energy efficiency and reduce waste in our operations. For more information regarding Somero's approach to business sustainability, please refer to the our ESG Framework and Stakeholder Engagement sections on pages 28-31 of this Annual Report.

## Vincenzo LiCausi

Company Secretary  
March 8, 2023



# REPORT OF THE INDEPENDENT AUDITORS

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

### Opinion

We have audited the consolidated financial statements of Somero Enterprises, Inc. a Delaware corporation, which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Somero Enterprises, Inc. as of December 31, 2022 and 2021, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America ("GAAP").

### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Somero Enterprises, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with GAAP, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Somero Enterprises, Inc.'s ability to continue as a going concern for one year after the date that the consolidated financial statements are issued.

### Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Somero Enterprises, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Somero Enterprises, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.



Dallas, Texas  
March 8, 2023

# CONSOLIDATED BALANCE SHEETS

As of December 31, 2022 and 2021

Assets	Year ended December 31	
	2022 US\$ 000	2021 US\$ 000
<b>Current assets:</b>		
Cash and cash equivalents	33,699	42,146
Accounts receivable – net	10,315	7,691
Inventories – net	18,849	14,293
Prepaid expenses and other assets	2,022	1,590
Income tax receivable	702	2,376
<b>Total current assets</b>	<b>65,587</b>	<b>68,096</b>
Accounts receivable, non-current – net	414	461
Property, plant, and equipment – net	25,650	21,589
Financing lease right-of-use assets – net	323	383
Operating lease right-of-use assets – net	1,066	1,578
Intangible assets – net	1,257	1,392
Goodwill	3,294	3,294
Deferred tax asset	1,165	172
Other assets	235	394
<b>Total assets</b>	<b>98,991</b>	<b>97,359</b>
<b>Liabilities and stockholders' equity</b>		
<b>Current liabilities:</b>		
Accounts payable	9,683	7,111
Accrued expenses	8,495	10,291
Financing lease liability – current	175	183
Operating lease liability – current	304	360
<b>Total current liabilities</b>	<b>18,657</b>	<b>17,945</b>
Financing lease liability – long term	98	127
Operating lease liability – long term	799	1,255
Other liabilities	2,311	2,367
<b>Total liabilities</b>	<b>21,865</b>	<b>21,694</b>
<b>Stockholders' equity</b>		
Preferred stock, US\$.001 par value, 50,000,000 shares authorized, no shares issued and outstanding	–	–
Common stock, US\$.001 par value, 80,000,000 shares authorized, 55,818,357 and 56,246,964 shares issued and 55,812,857 and 56,039,924 shares outstanding at December 31, 2022 and 2021, respectively	26	26
Less: treasury stock, shares 5,500 as of December 31, 2022 and 207,040 shares as of December 31, 2021 at cost	(39)	(848)
Additional paid in capital	14,625	16,769
Retained earnings	64,325	62,187
Other comprehensive loss	(1,811)	(2,469)
<b>Total stockholders' equity</b>	<b>77,126</b>	<b>75,665</b>
<b>Total liabilities and stockholders' equity</b>	<b>98,991</b>	<b>97,359</b>

See Notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31, 2022 and 2021

	Year ended December 31	
	2022 US\$ 000 except per share data	2021 US\$ 000 except per share data
<b>Revenue</b>	133,590	133,334
<b>Cost of sales</b>	57,431	56,454
<b>Gross profit</b>	76,159	76,880
<b>Operating expenses</b>		
Sales, marketing and customer support	14,289	12,644
Engineering and product development	2,600	2,106
General and administrative	16,170	16,989
Total operating expenses	33,059	31,739
<b>Operating income</b>	43,100	45,141
<b>Other income (expense)</b>		
Interest expense	(18)	(45)
Interest income	62	171
Foreign exchange impact	(1,342)	(239)
Other	(1,001)	(408)
<b>Income before income taxes</b>	40,801	44,620
<b>Provision for income taxes</b>	9,682	9,788
<b>Net income</b>	<b>31,119</b>	<b>34,832</b>
<b>Other comprehensive income</b>		
Cumulative translation adjustment	658	356
<b>Comprehensive income</b>	31,777	35,188
<b>Earnings per common share</b>		
Earnings per share – basic	0.56	0.62
Earnings per share – diluted	0.55	0.61
<b>Weighted average number of common shares outstanding</b>		
Basic	55,443,830	56,133,366
Diluted	56,105,023	56,825,539

See Notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the years ended December 31, 2022 and 2021

	Common stock		Additional paid-in capital US\$ 000	Treasury stock		Retained earnings US\$ 000	Other Comprehensive income (loss) US\$ 000	Total Stockholders' equity US\$ 000
	Shares	Amount US\$ 000		Shares	Amount US\$ 000			
<b>Balance – January 1, 2021</b>	56,425,598	26	17,598	301,189	(1,040)	49,771	(2,825)	63,530
Cumulative translation adjustment	–	–	–	–	–	–	356	356
Net income	–	–	–	–	–	34,832	–	34,832
Stock-based compensation	–	–	1,052	–	–	–	–	1,052
Dividend	–	–	–	–	–	(22,416)	–	(22,416)
Treasury stock	(178,634)	–	(192)	(94,149)	192	–	–	–
RSUs settled for cash	–	–	(685)	–	–	–	–	(685)
Share buy-back	–	–	(1,004)	–	–	–	–	(1,004)
<b>Balance – December 31, 2021</b>	56,246,964	26	16,769	207,040	(848)	62,187	(2,469)	75,665
Cumulative translation adjustment	–	–	–	–	–	–	658	658
Net income	–	–	–	–	–	31,119	–	31,119
Stock-based compensation	–	–	1,165	–	–	–	–	1,165
Dividend	–	–	–	–	–	(28,981)	–	(28,981)
Treasury stock	(483,960)	–	(2,236)	(483,960)	2,236	–	–	–
RSUs settled for cash	–	–	(1,073)	–	–	–	–	(1,073)
Share buy-back	–	–	–	282,420	(1,427)	–	–	(1,427)
New shares issued	55,353	–	–	–	–	–	–	–
<b>Balance – December 31, 2022</b>	55,818,357	26	14,625	5,500	(39)	64,325	(1,811)	77,126

See Notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2022 and 2021

	Year ended December 31	
	2022 US\$ 000	2021 US\$ 000
<b>Cash flows from operating activities:</b>		
Net income	31,119	34,832
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred taxes	(993)	(91)
Depreciation and amortization	1,457	1,326
Non-cash lease expense	304	261
Bad debt	247	468
Stock-based compensation	1,165	1,052
Gain/Loss on disposal of property and equipment	(158)	(49)
Working capital changes:		
Accounts receivable	(2,824)	(1,473)
Inventories	(4,556)	(3,166)
Prepaid expenses and other assets	(273)	86
Other assets	159	(91)
Accounts payable, accrued expenses and other liabilities	481	7,025
Income taxes receivable	1,674	(3,264)
<b>Net cash provided by operating activities</b>	<b>27,802</b>	<b>36,916</b>
<b>Cash flows from investing activities:</b>		
Proceeds from sale of property and equipment	143	41
Property and equipment purchases	(5,367)	(6,245)
<b>Net cash used in investing activities</b>	<b>(5,224)</b>	<b>(6,204)</b>
<b>Cash flows from financing activities:</b>		
Payment of dividend	(28,981)	(22,416)
RSUs settled for cash	(1,073)	(685)
Stock buy-back	(1,427)	(1,004)
Payments under financing leases	(202)	(205)
<b>Net cash used in financing activities</b>	<b>(31,683)</b>	<b>(24,310)</b>
Effect of exchange rates on cash and cash equivalents	658	356
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(8,447)</b>	<b>6,758</b>
Cash and cash equivalents:		
Beginning of year	42,146	35,388
End of year	33,699	42,146

See Notes to consolidated financial statements.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2022 and 2021

## 1. Organization and description of business

### Nature of business

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

## 2. Summary of significant accounting policies

### Basis of presentation

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

### Principles of consolidation

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

### Use of estimates

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

### Cash and cash equivalents

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

### Accounts receivable and allowances for doubtful accounts

Financial instruments which potentially subject the Company to concentrations of credit risk consist primarily of accounts receivable. The Company’s accounts receivable are derived from revenue earned from a diverse group of customers. The Company performs credit evaluations of its commercial customers and maintains an allowance for doubtful accounts receivable based upon the expected ability to collect accounts receivable. Allowances, if necessary, are established for amounts determined to be uncollectible based on specific identification and historical experience. As of December 31, 2022 and 2021, the allowance for doubtful accounts was approximately US\$ 1,780,000 and US\$ 1,637,000, respectively. Bad debt expense was US\$ 247,000 and US\$ 468,000 in 2022 and 2021, respectively.

### Inventories

Inventories are stated using the first in, first out (“FIFO”) method at the lower of cost or net realizable value (“NRV”). Provision for potentially obsolete or slow-moving inventory is made based on management’s analysis of inventory levels and future sales forecasts. As of December 31, 2022 and 2021, the provision for obsolete and slow-moving inventory was US\$ 643,000 and US\$ 1,212,000, respectively.

### Intangible assets and goodwill

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

Goodwill is not amortized but is subject to impairment tests on an annual basis, and the Company has chosen December 31 as its periodic assessment date. Goodwill represents the excess cost of the business combination over the Company’s interest in the fair value of the identifiable assets and liabilities. Goodwill arose from the Company’s prior sale from Dover Corporation to The Gores Group in 2005 and the purchase of the Line Dragon, LLC business assets in January 2019.

### Revenue recognition

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

As of December 31, 2022 and 2021 there are US\$ 582,000 and US\$ 507,000, respectively, of extended service agreement liabilities. During the years ended December 31, 2022 and 2021, US\$ 425,000 and US\$ 321,000, respectively, of revenue was recognized related to the amounts recorded as liabilities on the balance sheets in the prior year (deferred contract revenue).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## As of December 31, 2022 and 2021

As of December 31, 2022 and 2021, there are US\$ 2,180,000 and US\$ 4,009,000, respectively, in customer deposit liabilities for advance payments received during the period for contracts expected the following period. As of the year ended December 31, 2022 and 2021, there are no significant contract costs such as sales commissions or costs deferred. Interest income on financing arrangements is recognized as interest accrues, using the effective interest method.

### Warranty liability

The Company provides warranties on all equipment sales ranging from 60 days to three years, depending on the product.

Warranty liabilities are estimated net of the warranty passed through to the Company from vendors, based on specific identification of issues and historical experience and is recorded in accrued expenses in the accompanying consolidated balance sheets.

	US\$ 000
Balance, January 1, 2021	(1,174)
Warranty charges	362
Accruals	(1,174)
Balance, December 31, 2021	(1,986)
Balance, January 1, 2022	(1,986)
Warranty charges	808
Accruals	(270)
Balance, December 31, 2022	(1,448)

### Property, plant, and equipment

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

### Income taxes

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

### Stock-based compensation

The Company recognizes the cost of employee services received in exchange for an award of equity instruments in the financial statements over the period the employee is required to perform the services in exchange for the award (presumptively the vesting period). The Company measures the cost of employee services in exchange for an award based on the grant-date fair value of the award. Compensation expense related to stock-based payments was US\$ 1,165,000 and US\$ 1,052,000 for the years ended December 31, 2022 and 2021, respectively. In addition, the Company settled US\$ 1,073,000 and US\$ 685,000 in restricted stock units for cash during the years ended December 31, 2022 and 2021, respectively.

### Transactions in and translation of foreign currency

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

## 2. Summary of significant accounting policies continued

### Comprehensive income

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

### Earnings per share

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

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

	Year ended December 31	
	2022 US\$ 000	2021 US\$ 000
Income available to stockholders	31,119	34,832
Basic weighted shares outstanding	55,443,830	56,133,366
Net dilutive effect of stock options and restricted stock units	661,193	692,173
Diluted weighted average shares outstanding	56,105,023	56,825,539

### Fair value

The carrying values of cash and cash equivalents, accounts receivable, accounts payable, and other current assets and liabilities approximate fair value because of the short-term nature of these instruments. The carrying value of our long-term debt approximates fair value due to the variable nature of the interest rates under our Credit Facility.

US GAAP has issued accounting guidance on fair value measurements. This guidance provides a common definition of fair value and a framework for measuring assets and liabilities at fair values when a particular standard prescribes it.

This guidance also specifies a fair value hierarchy based upon the observability of inputs used in valuation techniques. These valuation techniques may be based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. These two types of inputs create the following fair value hierarchy.

- Level 1 – Quoted prices for identical instruments in active markets.
- Level 2 – Quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; and model-derived other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets and liabilities.
- Level 3 – Unobservable inputs for the asset or liability which are supported by little or no market activity and reflect the Company's assumptions that a market participant would use in pricing the asset or liability.

	US\$ 000	Quoted prices in active markets identical assets Level 1	Significant other observable inputs Level 2	Significant other unobservable inputs Level 3
		US\$ 000	US\$ 000	US\$ 000
<b>Year ended December 31, 2021</b>				
Asset: Goodwill	3,294	–	–	3,294
<b>Year ended December 31, 2022</b>				
Asset: Goodwill	3,294	–	–	3,294

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

As of December 31, 2022 and 2021

## 3. Inventories

Inventories consisted of the following:

	Year ended December 31	
	2022 US\$ 000	2021 US\$ 000
Raw material	11,393	8,679
Finished goods and work in process	5,768	3,462
Remanufactured	1,688	2,152
Total	18,849	14,293

## 4. Goodwill and intangible assets

Goodwill represents the excess of the cost of a business combination over the fair value of the net assets acquired. The Company is required to test goodwill for impairment, at the reporting unit level, annually and when events or circumstances indicate the fair value of a unit may be below its carrying value. The results of the qualitative assessment indicated that goodwill was not impaired as of December 31, 2022 and 2021, and that the value of patents was not impaired as of December 31, 2022. The following table reflects other intangible assets:

		Weighted average Amortization Period	Year ended December 31	
			2022 US\$ 000	2021 US\$ 000
Capitalized cost	Patents	12 years	19,247	19,247
	Intangible Assets		7,434	7,434
			26,681	26,681
Accumulated amortization	Patents	12 years	18,721	18,673
	Intangible Assets		6,703	6,616
			25,424	25,289
Net carrying costs	Patents	12 years	526	574
	Intangible Assets		731	818
			1,257	1,392

Amortization expense associated with the intangible assets in each of the years ended December 31, 2022 and 2021 was approximately US\$ 135,000 and US\$ 153,000, respectively. The amortization expense for each of the next five years will be US\$ 135,000 and the remaining amortization thereafter will be US\$ 582,000.

## 5. Property, plant, and equipment

Property, plant, and equipment consist of the following:

	Year ended December 31	
	2022 US\$ 000	2021 US\$ 000
Land	864	864
Building and improvements	24,812	20,191
Machinery and equipment	8,744	8,185
	34,420	29,240
Less: accumulated depreciation and amortization	(8,770)	(7,651)
	25,650	21,589

Depreciation expense for the years ended December 31, 2022 and 2021 was approximately US\$ 1,322,000 and US\$ 1,173,000, respectively.

## 6. Line of credit and note payable

In August 2022, the Company updated its credit facility to a US\$ 25.0m secured revolving line of credit, with a maturity date of August 2027. The interest rate on the revolving credit line is based on the BSBY Index plus 1.25%. The Company's credit facility is secured by substantially all its business assets. No amounts were drawn under the secured revolving line of credit in the years ended December 31, 2022 or 2021.

Interest expense for the years ended December 31, 2022 and 2021 was approximately US\$ 18,000 and US\$ 45,000, respectively, and relates primarily to interest costs on leased vehicles.

## 7. Retirement program

The Company has a savings and retirement plan for its employees, which is intended to qualify under Section 401(k) of the US Internal Revenue Code ("IRC"). This savings and retirement plan provides for voluntary contributions by participating employees, not to exceed maximum limits set forth by the IRC. The Company's matching contributions vest immediately. The Company contributed approximately US\$ 1,058,000 to the savings and retirement plan during 2022 and contributed US\$ 925,000 during 2021.

## 8. Leases

The Company leases property, vehicles, and equipment under leases accounted for as operating and finance leases. The leases have remaining lease terms of less than one year to 11 years, some of which include options for renewal. The exercise of these renewal options is at the sole discretion of the Company. The right-of-use assets and related liabilities presented on the Consolidated Balance Sheet, reflect management's current expectations regarding the exercise of renewal options. The components for lease expense were as follows as of December 31, 2022:

	US\$ 000
Operating lease cost	325
Finance lease cost:	
Amortization of right-of-use assets	137
Interest on lease liabilities	12
Total finance lease cost	149

As of December 31, 2022, the weighted average discount rate for finance and operating leases was 4.7% and 3.7%, respectively, and the weighted average remaining lease term for finance and operating leases was 1.6 years and 7.6 years, respectively.

Maturities of lease liabilities are as follows for the years ended:

	Operating Leases US\$ 000	Finance Leases US\$ 000
2023	341	186
2024	203	86
2025	93	13
2026	93	–
2027	93	–
Thereafter	465	–
Total	1,288	285
Less imputed interest	(185)	(12)
Total	1,103	273



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

As of December 31, 2022 and 2021

## 9. Supplemental cash flow and non-cash financing disclosures

	Year ended December 31	
	2022 US\$ 000	2021 US\$ 000
Cash paid for interest	18	45
Cash paid for taxes	8,806	12,547
Finance lease liabilities arising from obtaining right-of-use assets	(37)	(80)
Operating lease liabilities arising from obtaining right-of-use assets	(513)	278

## 10. Business and credit concentration

The Company's line of business could be significantly impacted by, among other things, the state of the general economy, the Company's ability to continue to protect its intellectual property rights, and the potential future growth of competitors. Any of the foregoing may significantly affect management's estimates and the Company's performance. At December 31, 2022 and 2021, the Company had five customers which represented 42% and two customers which represented 21% of total accounts receivable, respectively.

## 11. Commitments and contingencies

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

## 12. Income taxes

	Year ended December 31	
	2022 US\$ 000	2021 US\$ 000
Current Income Tax		
Federal	8,703	8,344
State	1,332	1,195
Foreign	640	341
Total current income tax expense	10,675	9,880
Deferred tax expense (benefit)		
Federal	(820)	(91)
State	(89)	(1)
Foreign	(84)	–
Total deferred tax expense	(993)	(92)
Total tax provision	9,682	9,788

## 12. Income taxes continued

As of December 31, 2022 and 2021, the effects of temporary differences that give rise to the deferred tax assets are as follows:

	Year ended December 31	
	2022 US\$ 000	2021 US\$ 000
Deferred tax assets		
Bad debt allowance	349	378
Inventory	325	284
Accrued expenses	343	458
UK intangibles	146	105
Stock compensation	386	394
Italy – NOL	385	268
Lease liability	43	47
Capital research expenditures	683	–
Other	494	250
Total deferred tax assets	3,154	2,184
Deferred tax liabilities		
Prepaid insurance	(149)	(264)
Fixed assets	(783)	(838)
Intangible assets	(631)	(597)
Right-of-use asset	(41)	(45)
Total deferred tax liabilities	(1,604)	(1,744)
Valuation allowance	(385)	(268)
Total net deferred tax asset	1,165	172

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

	Year ended December 31	
	2022 US\$ 000	2021 US\$ 000
Consolidated income before tax	40,801	44,620
Statutory rate	21%	21%
Statutory tax expense	8,568	9,370
State taxes	1,007	943
Foreign taxes	723	342
Permanent differences due to stock options and RSUs	(55)	6
Permanent differences due to other items	344	21
Foreign derived intangible income	(738)	(1,207)
Change in valuation allowance	117	36
Change in reserve	–	67
Tax credits	(158)	–
Other	(126)	210
Tax expense	9,682	9,788

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

## As of December 31, 2022 and 2021

As of December 31, 2022, the Company has US\$ 1.64m of foreign loss carryforwards with an indefinite carryforward life. Management assesses the recoverability of our deferred tax assets as of the end of each quarter, weighing all positive and negative evidence, and is required to establish and maintain a valuation allowance for these assets if we determine that it is more likely than not that some or all of the deferred tax assets will not be realized. The weight given to the evidence is commensurate with the extent to which the evidence can be objectively verified. If negative evidence exists, positive evidence is necessary to support a conclusion that a valuation allowance is not needed. As of December 31, 2022 management has determined that a valuation allowance is currently needed against the Company's net operating loss carryforward deferred tax assets.

The Company files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. The Company has open years for the tax year 2019 and forward. The Company has open years related to United Kingdom filings for the tax year 2019, and open years related to Italian filings for tax years 2015 forward.

The Company adopted the accounting standard for uncertain tax positions, ASC 740-10, in accordance with US GAAP, and as required by the standard, the Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely than not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority.

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

Unrecognized tax benefits – January 1, 2021	958
Increases from positions taken during prior periods	492
Increases from positions taken during current period	–
Settled positions	–
Lapse of statute of limitations	–
Unrecognized tax benefits – December 31, 2021	1,450
Unrecognized tax benefits – January 1, 2022	1,450
Increases from positions taken during prior periods	–
Increases from positions taken during current period	–
Settled positions	–
Lapse of statute of limitations	–
Unrecognized tax benefits – December 31, 2022	1,450

The amount of unrecognized tax benefits as of December 31, 2022, if recognized, would favorably affect the Company's effective tax rate. These unrecognized tax benefits are classified as "Other Long-Term Liabilities" in the Company's Consolidated Balance Sheet as the Company does not intend to make significant payments in the next 12 months. Interest and penalties related to unrecognized tax benefits are included in provision for income tax expense.

### 13. Revenues by geographic region

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

	2022 US\$ 000	2021 US\$ 000
United States and U.S. possessions	101,773	106,627
Rest of World	31,817	26,707
Total	133,590	133,334

## 14. Stock-based compensation

The Company has stock-based compensation plans which are described below. The compensation cost that has been charged against income for the plans was approximately US\$ 1,165,000 and US\$ 1,052,000 for the years ended December 31, 2022 and 2021, respectively. The income tax effect recognized for stock-based compensation was US\$ 0.3m and US\$ 0.02m, respectively, for the years ended December 31, 2022 and 2021.

### Restricted stock units

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

A summary of restricted stock unit activity in 2022 and 2021 is presented below:

	Shares	Grant date fair market value US\$
Outstanding at January 1, 2021	666,070	2,687,027
Granted	184,890	941,711
Vested or settled for cash	(156,644)	(826,618)
Forfeited	(12,960)	(50,000)
Outstanding at December 31, 2021	681,356	2,752,120
Outstanding at January 1, 2022	681,356	2,752,120
Granted	176,808	1,133,698
Vested or settled for cash	(183,666)	(925,674)
Forfeited	(6,508)	(25,000)
Outstanding at December 31, 2022	667,990	2,935,144

RSUs settled for cash were US\$ 1.1m in 2022 and US\$ 0.7m in 2021.

As of December 31, 2022, there was US\$ 1,256,000 total unrecognized compensation cost related to non-vested restricted stock units. Restricted stock unit expense is being recognized over the three-year vesting period. The weighted average remaining vesting period is 1.02 years.

## 15. Employee compensation

The Board approved management bonuses and profit-sharing payments totaling US\$ 2.0m, partly paid in December 2022 and the remainder to be paid in early 2023, based upon the Company meeting certain financial targets. Amounts not paid during 2022, are included in accrued expenses in the accompanying consolidated balance sheets.

### Equity bonus plan

The Company has an Equity Bonus Plan, under which eligible senior managers may choose to receive a percentage of their annual performance bonus in shares of common stock. In March 2022, the Company issued 40,467 shares of common stock, valued at US\$ 261,000 at the time of grant. In March 2021, the Company issued 37,014 shares of common stock, valued at US\$ 189,000 at the time of grant.

## 16. Share buyback

In February 2022 and 2021, the Board authorized on-market share buyback programs for such number of its listed shares of common stock as are equal to US\$ 2,000,000 and US\$ 1,000,000, respectively. The maximum price paid per Ordinary Share was no more than the higher of 105 percent of the average middle market closing price of an Ordinary Share for the five business days preceding the date of the share buyback, the price of the last independent trade and the highest current independent purchase bid. As of December 31, 2022, the Company purchased 276,473 shares of common stock for an aggregate value of US\$ 1,389,000 pursuant to the share buyback program authorized in 2022, and 5,947 shares of common stock for an aggregate value of US\$ 38,000, which completed the share buyback program authorized in 2021. The Company estimates the share buyback program authorized in 2022 will be completed by the end of H1 2023. In connection with the Company's share buyback programs authorized in 2022 and 2021, 483,960 shares held in treasury were cancelled in 2022.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

As of December 31, 2022 and 2021

## 17. Subsequent events

### Dividend

In recognition of Somero's strong performance and the Board of Directors' confidence in the continued growth of the Company, the Board approved a dividend payout ratio of 50% of adjusted net income and is pleased to announce a final 2022 dividend of 17.8 US cents per share that will be payable on May 5, 2023 to shareholders on the register at April 11, 2023. Together with the interim dividend paid in October 2022 of 10.00 US cents per share, this represents a full year regular dividend to shareholders of 27.78 US cents per share. In addition, due to the strength of the Company's cash position at the end of 2022, and upon the review of anticipated future cash requirements for the business, the Board of Directors' has approved a supplemental dividend of 7.7 US cents per share that will be paid together with the final 2022 dividend on May 5, 2023 to shareholders on the register at April 11, 2023. The combined dividend payment will total 25.48 US cents per share, representing a total dividend payment of US\$ 14.2m.

Distribution amount:	\$0.2548 cents per share
Ex-dividend date:	6 April 2023
Dividend record date:	11 April 2023
Final day for currency election:	25 April 2023
Payment date:	5 May 2023

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

### Equity bonus plan

In February 2023, the Board approved the 2022 Equity Bonus Plan, under which eligible senior managers can elect to receive up to 100% of their 2022 annual performance bonus in shares of common stock. The Company expects to issue shares for awards under the 2022 Equity Bonus Plan in 2023.

### Share buyback

In February 2023, the Board approved a share buyback program, pursuant to which, the Board intends to carry out an on-market buyback of such number of its listed shares of common stock as are equal to US\$ 2,000,000. The purpose of the program is to mitigate future dilution resulting from share issuances under the Company's equity award programs. The Company estimates that the program will be fulfilled by the end of 2023.

## Other Unaudited Information

### Dividends

All dividends, including both ordinary and supplemental, have the option of being paid in either GBP or USD subject to the underlying agreements between shareholders and their brokers, which Somero cannot override. Payments in USD can be paid by check or through Crest. Payments in GBP can be paid via check, Crest and BACS. The default option if no election is made will be for a USD payment via check. Should shareholders wish to change their current currency or payment methods, forms are available through Computershare Investor Services PLC at <https://www-uk.computershare.com/Investor/Content/c057a8a7-f4f8-4fcb-a497-836ce2f708d5>.

If shares are held as Depository Interests through a broker or nominee, the holding company must be contacted and advised of the payment preferences. Such requests are subject to the terms and conditions of the broker or nominee.

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

### Annual General Meeting

The Annual General Meeting of Stockholders (the "AGM") of the Company will be held at 14530 Global Parkway, Fort Myers, FL 33913 USA on May 18, 2023 at 9:00 am local time. The notice of the AGM shall be released with the Annual Report and shall include instructions for remote participation. Stockholders of record at the close of business on April 18, 2023 will be entitled to receive notice of, and vote at, the AGM.





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