



**INNOVATE.
EXPAND.
GROW.**

ANNUAL REPORT & ACCOUNTS 2023



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 **GROW SUCCESSFUL BUSINESSES**.

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HIGHLIGHTS

FINANCIAL

Revenue

US\$ 120.7m

-9.7%



Adjusted EBITDA^(1,2)

US\$ 36.5m

-20.7%



Ordinary dividend per share

US\$ 0.23

-16.5%



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

US\$ 0.47

-14.5%



Cash flow from operations

US\$ 24.4m

-12.2%



Net cash⁽⁴⁾

US\$ 33.3m

-1.2%



OPERATIONAL

- Strategic investment in international markets yielding positive results
 - Revenue in Australia grew 18% driven by new customer acquisition and broader product range
 - Parts and service sales in Europe and Australia grew 19% and 43% respectively
- Completed installation of in-house painting and material preparation systems in the US
- Completed relocation of Australia operations to a larger facility to meet growing demand
- Increased European footprint with a new site in Belgium

POST-PERIOD

- Non-residential construction remains healthy with customers reporting high activity levels and extended project backlogs, and expect market conditions to remain consistent in 2024
- Three new products launching in 2024, including the first step toward electrification with the launch of the S-940e in January
- Declared a 13.2 US cents per share final 2023 ordinary dividend and a 7.4 US cents per share supplemental dividend, totaling a combined US\$ 11.4m
- Authorized a new share buyback program of an aggregate value of up to US\$ 2m to offset dilution from on-going equity award programs, expected to be completed by the end of 2024

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.

AT A GLANCE

WHO WE ARE

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 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.

OUR 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

OUR 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 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.

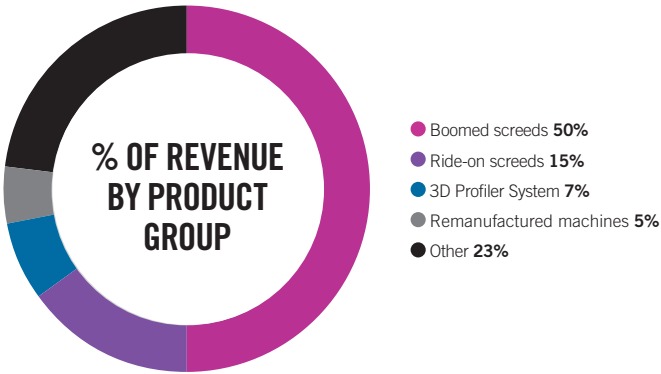
Our equipment has been used in construction projects for a wide array of the world's largest organizations including Amazon, Walmart, Costco, Home Depot, B&Q, Carrefour, IKEA, Mercedes-Benz, Coca-Cola, FedEx, Tesla and Prologis.

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

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 over 20 products. Our proprietary designs are protected by 129 patents and patent applications.



→ See all products on our website: www.somero.com

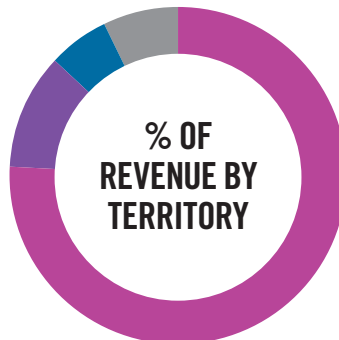
WHERE WE OPERATE

A GLOBAL BUSINESS

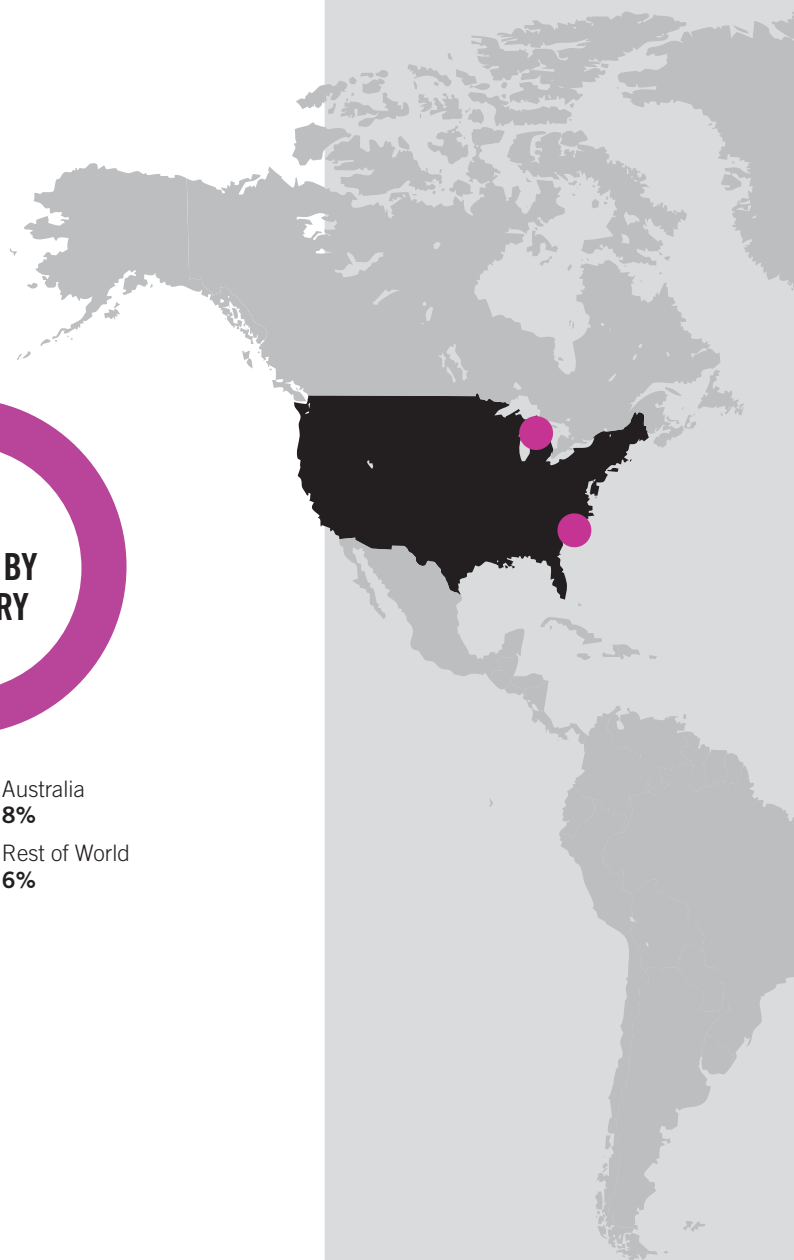
OUR LOCATIONS

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.

- **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 [ceased operations in December 2023]
- **Australia, Melbourne:**
Sales and service office
- **UK, Chesterfield:**
Sales and service office
- **Belgium, Kampenhout:**
Sales and service office
- ➔ Read more about Market opportunities and growth on page 12



- North America 73%
- Europe 13%
- Australia 8%
- Rest of World 6%





CHAIRMAN'S AND CHIEF EXECUTIVE OFFICER'S STATEMENT

FOCUSED ON OUR STRATEGY FOR SUCCESS

OVERVIEW

Against an exceptional 2022 and taking into consideration the previously reported factors impacting the pace of sale of boomed screeds in North America, the Board is pleased with a solid overall performance in 2023. We have delivered continued growth in our key international markets, in particular sales of parts and service, while maintaining healthy profitability. Group 2023 revenues totaled US\$ 120.7m (2022: US \$133.6m), with the 10% decline driven by the trading slowdown in North America. The Company's flexible cost structure enabled it to quickly adjust its operational headcount to the changing circumstances. Customer facing and product development headcount were not impacted, enabling us to continue to execute and support the long-term growth strategy. As a result, 2023 gross margin was 55.8% (2022: 57.0%) and adjusted EBITDA margin was 30.2% (2022: 34.5%). Net income of US\$ 27.9m (2022: US\$ 31.1m) converted efficiently to operating cash flow of US\$ 24.4m in 2023 (2022: US\$ 27.8m), reflecting healthy profitability and strong cash collection. The 2023 operating cash flow funded US\$ 19.8m in dividend payments. December 31, 2023 net cash totaled US\$ 33.3m (2022: US\$ 33.7m). The Company's final 2023 results were in line with guidance provided on 20 June 2023.

REGION AND PRODUCT REVIEWS

North America

2023 North American sales declined 13.2% from 2022 to US\$ 88.4m. Our US customers continue to report a high level of activity and a diverse range of projects ranging from large footprint manufacturing facilities, data centers and warehousing to smaller footprint retail, schools, and medical centers, and maintain robust project backlogs. While underlying market conditions remain positive, factors noted in the 20 June 2023 Trading Update led to delayed starts and pauses to non-residential construction projects and impacted the translation of construction activity into trading in the US compared to 2022. Although US customers have not reported project cancellations, the project delays have impacted their equipment purchase decision. H2 trading benefited from the re-launched S-22EZ reaching full production at the end of H1 2023. The long-standing and worsening shortage of skilled labor necessitating the need for automation and work productivity, coupled with strong end-user demand, such as onshoring of manufacturing, electric vehicle battery plants, and chip manufacturing, provides long-term demand for our products.

Europe

Europe, one of our target international markets where we see meaningful opportunity for growth, reported sales of US\$ 15.1m in 2023, up 1.3% from US\$ 14.9m in 2022. Of particular note, revenue from the sale of parts and service grew 19% on 2022. The Company's investments in customer facing resources and capabilities, including adding three European-based sales positions and customer support employees, led to an increase in new customer acquisitions, deeper penetration of new and existing products, and, with a growing installed base, an elevated demand for machine repair and service. The Company remains focused on attracting new customers by leveraging entry-level equipment such as the SRS-4 in the boomed screed category and the EcoScreed in the ride-on category, and intends to continue to invest in this market in 2024 with the addition of a new facility in Belgium commencing in Q1 2024 and expected to be fully operational later in the year. This enables us to stock machines and parts and offer training and machine repair capabilities closer to our customers across Europe.

Australia

Australia is also a target international market where we see meaningful opportunity for growth through increased market penetration across our product portfolio. The transition to a direct sales and support model at the end of 2020 provided the foundation for the strong performance in 2023 and future growth.

Australia reported 2023 sales of US\$ 9.9m, a 17.9% increase from the US\$ 8.4m in 2022. Similar to Europe, the higher sales were attributable to our direct sales and customer support teams that were expanded with additional staff, focus on new customer acquisitions and selling a broader range of new and existing products.

Due to the success and continued growth in the region, in late H1 2023 we secured a larger facility to replace the current one. This provides additional space to stock a broader range of our products locally to quickly capitalize on sales opportunities, accommodate recent and future staff additions, and enhance our training and machine repair capabilities in the market. Operations were transitioned to the new facility in August 2023. The expanded capability has enabled us to capture incremental machine repair opportunities resulting in an increase in revenue from sale of parts and service of 43% on 2022.



TO HAVE SUCCESSFULLY NAVIGATED A CHALLENGING YEAR AND DELIVERED AGAINST MARKET EXPECTATIONS SET IN JUNE IS A GOOD RESULT AND I AM PROUD OF HOW OUR EMPLOYEES AROUND THE WORLD ROSE TO THE CHALLENGE.

Jack Cooney

Chief Executive Officer

Rest of World

Our Rest of World region includes Latin America, the Middle East, India, Southeast Asia, Korea and China. Excluding China, the Rest of World region reported combined 2023 revenues of US\$ 6.6m (2022: US\$ 7.5m). The main contributors to 2023 revenues were Latin America, India and the Middle East, which reported respective sales of US\$ 2.6m (2022: US\$ 3.6m), US\$ 1.8m (2022: US\$ 2.6m), and US\$ 1.5m (2022: US\$ 0.8m). As expected, China continued to report declines to US\$ 0.7m in 2023 from the US\$ 1.1m reported in 2022. At the end of 2023, we completed the divestment of our direct operations in China. Excluding China, market conditions in Rest of World territories were generally positive. Given the relatively small base of business in each region, trading will fluctuate from period to period.

Products

Demand for our product categories is impacted by the type and size of projects, and applications, which are ultimately driven by end users. Large Boomed screeds are suitable for large footprint projects such as warehousing, medical facilities and manufacturing facilities, while Ride-on screeds are suitable for smaller footprint projects and smaller concrete slabs. Different applications drive demand for other equipment, such as exterior applications driving demand for the 3D Profiler Systems and the Somero Broom+Cure™. As these variables shift, our product mix fluctuates accordingly.

2023 Boomed screed sales decreased to US\$ 53.9m from the US\$ 67.2m reported in 2022, driven by the factors in the US noted in the 20 June 2023 Trading Update and above. Nonetheless, there continues to be healthy demand for large Boomed screeds driven by recent onshoring efforts, an increase in electric vehicle battery plants and US legislation including the CHIPS Act, a statute providing roughly US\$ 280 billion in new funding to boost domestic research and manufacturing of semiconductors in the United States. 2023 sales of ride-on screeds totaling US\$ 20.4m grew 4.6% (2022: US\$ 19.5m), while sales of 3D Profiler Systems, remanufactured machines and total other revenue remained relatively comparable to 2022. Within the other revenue category, revenue from parts and service increased 9% to US\$ 20.5m from US\$ 18.8m reported in 2022. As detailed above, investments in customer support in our EU and Australia markets and growing installed bases contributed to this growth.

Products released since 2019, the SkyScreed® 36, S-PS50, SkyStrip® and the Somero Broom+Cure™, that target new market segments, together contributed US\$ 2.1m in 2023 revenues (2022: US\$ 4.2m), which was mostly from sales of Broom+Cure™. These are new inventions that address entirely new market segments and customer bases. 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. We remain confident that the long-term opportunity in these new market segments, including the high-rise structural market, far exceeds reported 2023 revenue for the Company, but understand as with all disruptive technology, gaining broad market acceptance will be a gradual process and trading will be volatile.

We continue to dedicate significant organizational time and resources to engage customers directly to develop a pipeline of ideas for solutions that address pain points. 2023 was an active period in this regard, with extensive jobsite visits and innovation council sessions both in the US and internationally, which will lead to the launch of three new products in 2024.

The first of these is the initial step in the long journey toward electrification, the S-940e, an electric version of the Company's popular S-940 ride-on machine. The second, further demonstrating Somero's commitment to addressing customer needs, is a new product filling a product-line market application gap, the SRS-6s. Both of these machines launched in January with a third scheduled for release later this year.

As part of our R&D process, we continue to explore and implement new technological advancements that will enhance our current and future offerings.

CHAIRMAN'S AND CHIEF EXECUTIVE OFFICER'S STATEMENT CONTINUED

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.

CASH FLOW AND BALANCE SHEET

Somero reported operating cash flow in 2023 of US\$ 24.4m, a strong result nonetheless driven by healthy profitability, albeit down from the exceptional US\$ 27.8m reported in 2022. Inventory required to support the Company's European and Australian operations remained elevated. While we drive to work down excess safety stock, which was built up to mitigate supply chain shortages, the addition of the new products will cause a natural uplift to inventory levels. Therefore, we anticipate overall inventory to remain relatively comparable to 2023.

The Company spent US\$ 1.7m in 2023 on capital expenditures, relating to on-going product software programs, and other activities in the ordinary course of business. With the goal of continuously enhancing productivity and customer engagement, the Company intends to make incremental investment in technological solutions in 2024 within operations, customer training, and marketing.

The Company also paid dividends in 2023 totaling US\$ 19.8m (2022: US\$ 29.0m), reflecting the Company's ongoing commitment to disciplined return of cash to shareholders, and repurchased US\$ 1.4m in common stock under the Company's share buyback program.

The Company ended 2023 with US\$ 33.3m in net cash slightly down from the US\$ 33.7m reported in 2022 reflecting lower net income, offset by lower capital expenditures and lower dividend payments, but still providing a secure financial position with a December 31, 2023 net cash balance that comfortably exceeds the Board approved minimum year-end cash reserve of US\$ 25.0m.

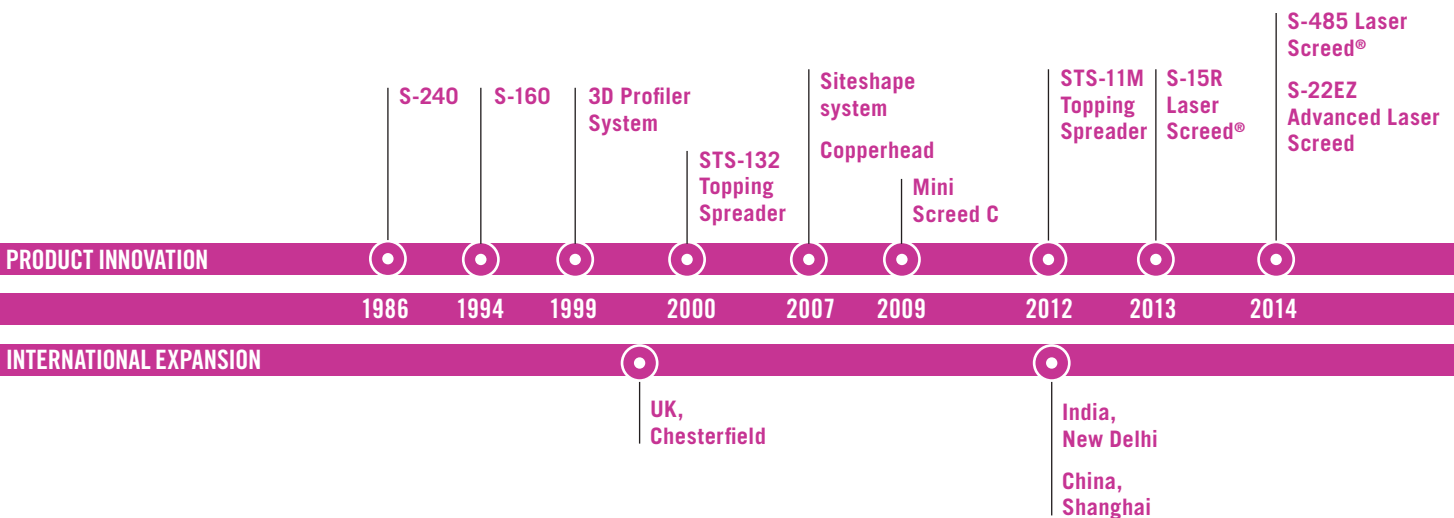
DIVIDEND AND SHARE BUYBACK PROGRAM

Based on the results of 2023, our secure financial position, and outlook for 2024, we are pleased to report that the Board has declared a final 2023 ordinary dividend of US\$ 0.1319 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\$ 0.0740 per share, calculated as a 50% distribution of December 31, 2023 cash that exceeds the Board approved year-end US\$ 25.0m minimum cash reserve. The final 2023 ordinary dividend when combined with the US\$ 0.10 per share interim dividend paid in October 2023, results in a total 2023 ordinary dividend of US\$ 0.2319, a 16.5% decrease from the US\$ 0.2778 per share 2022 ordinary dividend. Both the final 2023 ordinary dividend and the 2023 supplemental dividend will be payable on 10 May, 2024 to shareholders on the register at 12 April, 2024. The common stock ex-dividend date is 11 April 2024.



SOMERO'S JOURNEY

Somero started as a single product company in 1986 and has grown its portfolio to over 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.



In 2023, the Company repurchased a total of 373,635 shares of common stock under the Company's share buyback program put in place to offset dilution from on-going equity award programs. Under the buyback program, the maximum price paid per common share is to be no more than the higher of 105% of the average middle market closing price of common share for the five business days preceding the date of any share buyback, the price of the last independent trade and the highest current independent purchase bid. It is intended that any shares repurchased will be immediately canceled and the Company will make further announcements to the market as and when share purchases are made.

The Board has approved a 2024 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 program by the end of 2024.

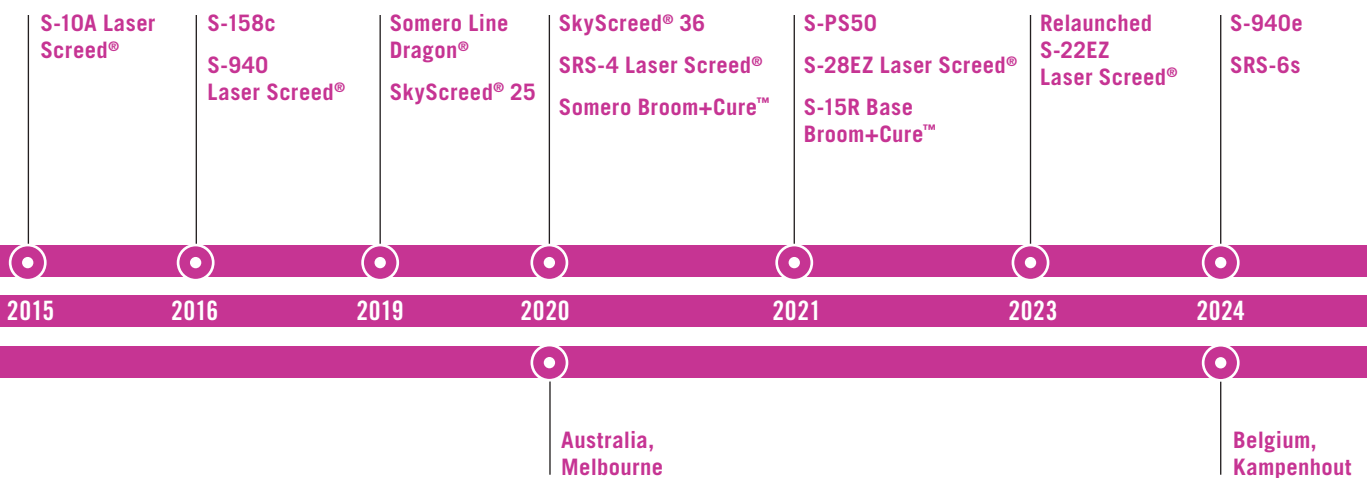
OUR PEOPLE

On behalf of the Board, we would like to thank all our global employees for their performance in 2023. A core strength of the Somero team is its ability to quickly adjust to changing conditions while always delivering the highest level of products and service to our customers. This underpins the Company's highly flexible cost model that enables it to deliver healthy profits. The Board and management team remain as committed as ever to providing all our employees with a rewarding and challenging working environment that is full of opportunity.



ACHIEVEMENTS IN 2023 EXEMPLIFY THE COMPANY'S COMMITMENT TO THE TWO PILLARS OF ITS LONG-TERM GROWTH STRATEGY OF PRODUCT INNOVATION AND INTERNATIONAL EXPANSION WITH THE DESIGN COMPLETION OF THREE NEW PRODUCTS LAUNCHING IN 2024, AND RELOCATING TO A LARGER FACILITY IN AUSTRALIA AND SECURING A NEW FACILITY IN BELGIUM TO DRIVE ONGOING REVENUE GROWTH IN OUR KEY INTERNATIONAL MARKETS.

Jack Cooney
Chief Executive Officer



CHAIRMAN'S AND CHIEF EXECUTIVE OFFICER'S STATEMENT CONTINUED

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

The Board closely monitors environmental, social and governance topics that materially impact our stakeholders. These topics are 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 2023, we completed a phase two environmental study by Colorado State University, which supplements the phase one study that was completed in 2021 by Middle Tennessee State University, the results of which were outlined in white papers. The phase one study concluded that the use of our laser screed machines in non-residential construction provides a number of environmental benefits, including a reduction in required concrete used in slab-on-grade projects that in turn reduces carbon emissions during construction that would otherwise occur from the use of alternative manual methods, which quantified in the phase two study to be approximately 3%.

Moreover, as noted above, the Company introduced its first electric machine as the first step toward electrification. The Board is committed to continuing down the path of electrifying our machines as customer demand dictates.

Additionally, we continue to invest resources not only in expanding and enhancing customer training, but also employee training. This commitment extends beyond Somero to the broader industry by sponsoring and prominently participating in a number of industry organizations with the goal of advancing the industry in general and on a variety of topics including safety, education, and best practices.

Lastly, the Board continues to prioritize independence and diversity on the Board reflecting a broad variety of disciplines, experiences, backgrounds and gender.

CONCLUSION AND OUTLOOK

Thanks to the talent, dedication and resolve of our employees, 2023 was a successful year under challenging conditions. The Company reported 2023 results in line with revised market expectations, paid US\$19.8m in dividends to shareholders, capitalized on strategic investments which led to revenue growth, expanded sales of parts and service in Europe and Australia, and completed product development activities to set forth three new product launches in 2024. There is much to be proud of as we look back.

Looking forward, the Board expects US non-residential construction to remain strong, supported by customers reporting high levels of activity and healthy backlogs, with market conditions expected to remain consistent to 2023, continued contribution from Europe and Australia, and multiple new product launches. With the Board's vision of long-term growth from new products and deeper international penetration, it has committed to continue making targeted investments to add resources to drive long-term growth. With the planned addition of the new Belgium service and training center and the annualized impact of strategic resources added in 2023, we expect an increase in 2024 operating costs that is within our traditionally targeted US\$ 2.0m incremental investment.

The Board expects the Company to deliver strong revenues, profits, and cash flows to shareholders in 2024, supported by a strong balance sheet with no outstanding debt and full availability of its US\$ 25.0m credit facility. The health of the non-residential construction markets in the US, Europe and Australia form the foundation of the Company's 2024 expectations. With all factors considered, 2024 revenues are expected to be comparable with 2023, EBITDA slightly lower from 2023 reflecting modest incremental investment including the new Belgium service and training center and the annualized impact of strategic resources added in 2023, and a commensurate level of year-end 2024 cash.

Larry Horsch

Non-Executive Chairman
5 March 2024

Jack Cooney

President & Chief Executive Officer

Notes:

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

OUR CORE STRENGTHS

Our performance in 2023 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
- Disciplined return of cash to shareholders through dividends
- Strong, unleveraged balance sheet

MARKET OVERVIEW

Our locations

Drivers of growth

Market dynamics

NORTH AMERICA

- 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
- Manufacturing and warehouse onshoring

- 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
- Demand for parts and service
- Machine electrification

- 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
- Demand for parts and service

- Meaningful installed base of equipment
- Positive non-residential market conditions
- Growing 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 2023 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

73%



INVESTMENTS IN KEY INTERNATIONAL MARKETS HAVE BORNE EXCELLENT RESULTS WITH CONTINUED OVERALL REVENUE GROWTH UNDERPINNED BY EXCEPTIONAL NEW CUSTOMER ACQUISITIONS AND EXPANDED PARTS AND SERVICE SALES.

Jack Cooney
Chief Executive Officer

- Increasing market penetration of new products
- Increasing efficiency and depth of sales and support coverage in targeted portions of the region

13%

39%

of European revenue from new customers

- 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

8%

62%

of AUS revenue from new customers

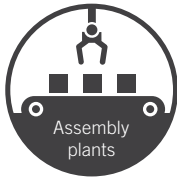
- Increasing market penetration of new and legacy products
- Increasing efficiency of sales and support coverage in targeted portions of the region
- Supporting promotion of wide-placement theory and quality standards for concrete floors

6%

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.



WHAT MAKES US DIFFERENT

OUR INNOVATIVE PRODUCT LEADERSHIP

- Pioneered Laser Screed® machine market in 1986
- Product portfolio grown to over 20 products
- Designs protected by over 120 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

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.

PROGRESS DURING THE YEAR

- Relunched S-22EZ meaningfully contributed to H2 2023 revenue
- Completed the design for three new products launching in 2024.
- Active periods of jobsite visits, customer innovation councils – set stage for next round of new products

Current Patents & Applications

120+

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.





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

- Added sales and customer support personnel in Italy, Germany and Czech Republic
- 19% parts and service revenue growth in Europe
- Increased size of in-country team and facility directly serving Australia
- 18% revenue growth in Australia

Non-Operational Staff Based Outside US

23%

ONGOING PRIORITIES

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.

BELGIUM STRATEGY IN ACTION

New facility

Commencing in Q1 2024, enables the company to stock machines and parts and offer training and machine repair capabilities closer to customers across Europe



ESG

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 2023 we continued to make progress on our long-term ESG journey. The Company will continue to monitor and improve upon metrics outlined on pages 20-21.

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.



SOCIAL

- SUPPORTING OUR COMMUNITY
- HEALTH AND SAFETY
- EMPLOYEE EXPERIENCE
- CUSTOMER TRAINING PROGRAM

ENVIRONMENTAL



- CLIMATE CHANGE
- ENVIRONMENTAL IMPACT

GOVERNANCE



- ESG GOVERNANCE
- BOARD INDEPENDENCE & DIVERSITY

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.



ENVIRONMENT

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 CO₂.

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

Metrics: Total energy consumption, CO₂ production.

Accomplishments:

Commissioned a phase two environmental study by Colorado State University. 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.

Colorado State University study completed in 2023 concluded the use of Somero laser screed equipment reduces concrete used in slab-on-grade projects by 3% over traditional manual methods.

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.

Accomplishments:

- 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 31,400 pounds of cardboard in 2023, up 21% from 2022.
- Converted factory lighting to LED, resulting in 28,000 kilowatts savings per year.
- Electricity consumption increased 12% in 2023 although the Houghton facility was expanded by 35%.
- 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.



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.

Accomplishments:

- Provided financial support to local charities. In 2023 financial support of 17 non-profit organizations, including donation to Ukraine humanitarian efforts, totaling over US \$103,000.
- Provided “days of service” where the Company/employees give time in support of the charities.
- Created employee volunteer initiative program resulting in participation of 61 employees and 250 volunteer total hours toward 8 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.

Accomplishments:

- Workplace training at Somero facilities to educate employees on safety with a goal to limit/reduce workplace injuries.
- Expanded safety training program to reduce the Company's Occupational Safety and Health Administration (OSHA) incident rate. Over 900 hours of training provided in 2023.
- Developing new products/solutions for customers that improve job-site safety.



SOCIAL

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.

Accomplishments:

- Held 355 training events globally, of which 32% 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 416 attendees representing 152 individual companies.
- The Company offers virtual training via its Learning Management System (LMS). In 2023, over 2,400 users accessed LMS for over 3,000 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.

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.

Accomplishments:

- 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.



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.

Accomplishments:

25% of non-executive directors are female, see page 33.

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.

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 CO₂ emissions.

Material topics

- 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 CO₂ environmental impact of Somero equipment
-
- Supporting and donating to local charities, and industry education programs that include total donations of over \$103,000 in 2023
-
- 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

CONCRETE INDUSTRY MANAGEMENT DONATION



31 BACKPACKS



HARRY CHAPIN FOOD BANK



CUSTOMER TRAINING



FEEDING AMERICA



FINANCIAL REVIEW

SUMMARY OF FINANCIAL RESULTS

	Year ended December 31,	
	2023 US\$ 000 Except per share data	2022 US\$ 000 Except per share data
Revenue	120,699	133,590
Cost of sales	53,343	57,431
Gross profit	67,356	76,159
Operating expenses		
Selling, marketing and customer support	14,742	14,289
Engineering and product development	2,679	2,600
General and administrative	16,340	16,170
Total operating expenses	33,761	33,059
Operating income	33,595	43,100
Other income (expense)		
Interest expense	(19)	(18)
Interest income	196	62
Foreign exchange impact	(731)	(1,342)
Other	196	(1,001)
Income before income taxes	33,237	40,801
Provision for income taxes	5,259	9,682
Net income	27,978	31,119
	Per Share US\$	Per Share US\$
Basic earnings per share	0.50	0.56
Diluted earnings per share	0.50	0.55
Basic adjusted net income per share ^{(1), (3), (4)}	0.46	0.55
Diluted adjusted net income per share ^{(1), (3), (4)}	0.46	0.55
Other data		
Adjusted EBITDA ^{(1), (2), (4)}	36,459	46,026
Adjusted net income ^{(1), (3), (4)}	25,737	31,000
Depreciation expense	1,425	1,322
Amortization of intangibles	135	135
Capital expenditures	1,740	5,367

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,	
	2023 US\$ 000	2022 US\$ 000
Adjusted EBITDA reconciliation		
Net income	27,978	31,119
Tax provision	5,259	9,682
Interest expense	19	18
Interest income	(196)	(62)
Foreign exchange impact	731	1,342
Other	(196)	1,001
Depreciation	1,425	1,322
Amortization	135	135
Stock-based compensation	985	1,165
Non-cash lease expense	319	304
Adjusted EBITDA	36,459	46,026
Adjusted net income		
Net income	27,978	31,119
Amortization	135	135
Tax impact of stock option & RSU settlements	(183)	(254)
Change in uncertain tax position reserve	(2,193)	–
Adjusted net income	25,737	31,000

FINANCIAL REVIEW CONTINUED

REVENUES

The Company's consolidated revenues decreased to US\$ 120.7m (2022: US\$ 133.6m). 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 the concrete machines that include the S-485, S-940, and S-158C Laser Screed® machines, Remanufactured machine sales, 3D Profiler System®, 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 decreased to US\$ 53.9m (2022: US\$ 67.2m) primarily due to reduced volume year over year. Ride-on screed sales increased to US\$ 20.4 (2022: US\$ 19.5m) mainly due to higher selling prices, while Remanufactured sales decreased slightly to US\$ 6.8m (2022: US\$ 6.9m). Sales of 3D Profiler System® decreased to US\$ 8.5m (2022: US\$ 8.7m) due to lower selling prices. Other revenues increased to US\$ 31.1m (2022: US\$ 30.2m) primarily attributable to an increase in parts sales and service.

Revenue breakdown by geography

	North America		EMEA ⁽¹⁾		ROW ⁽²⁾		Total US\$ in millions			
	US\$ in millions		US\$ in millions		US\$ in millions		2023		2022	
	2023	2022	2023	2022	2023	2022	Net sales	% of Net sales	Net sales	% of Net sales
Boomed screeds ⁽³⁾	38.1	49.7	9.0	9.9	6.8	7.6	53.9	44.7%	67.2	50.3%
Ride-on screeds ⁽⁴⁾	14.8	14.4	2.5	1.8	3.1	3.3	20.4	16.9%	19.5	14.6%
Remanufactured machines	5.5	5.2	0.9	0.9	0.4	0.8	6.8	5.6%	6.9	5.2%
3D Profiler System	6.5	8.2	0.4	0.1	1.6	0.4	8.5	7.0%	8.7	6.5%
SkyScreed	–	1.1	–	–	–	–	–	0%	1.1	0.8%
Other ⁽⁵⁾	23.5	23.2	3.8	3.0	3.8	4.0	31.1	25.8%	30.2	22.6%
Total	88.4	101.8	16.6	15.7	15.7	16.1	120.7	100.0%	133.6	100.0%

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

Units by product line	2023	2022
Boomed screeds	174	187
Ride-on screeds	168	166
Remanufactured machines	33	32
3D Profiler System	82	71
SkyScreed®	–	3
Other ⁽¹⁾	93	92
Total	550	551

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

Sales to customers located in North America contributed 73% of total revenue (2022: 76%), sales to customers in EMEA (Europe, Middle East, and Scandinavia) contributed 14% (2022: 12%) and sales to customers in ROW (Australia, Latin America, India, China, Korea, and Southeast Asia) contributed 13% (2022: 12%).

Sales in North America were US\$ 88.4m (2022: US\$ 101.8m) down 13% driven by lower sales volume of large-line Boomed Screeds. Sales in EMEA were US\$ 16.6m (2022: US\$ 15.7m), which is an increase of 6% primarily due to high volume Ride-on Screeds and other products. Sales in ROW were US\$ 15.7m (2022: US\$ 16.1), representing a 3% decrease driven primarily by lower sales volume of large Boomed Screeds in Latin America, India and China, partly offset by an increase in volume in Australia across most of the product line, including parts and service, and Boomed Screeds in Middle East.

Regional sales	US\$ in millions	
	2023	2022
North America	88.4	101.8
Europe	15.1	14.9
Australia	9.9	8.4
Rest of World ⁽¹⁾	7.3	8.5
Total	120.7	133.6

Note:

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

GROSS PROFIT

Gross profit decreased to US\$ 67.4m (2022: US\$ 76.2m), with gross margins decreasing slightly to 56% (2022: 57%) primarily due to higher input costs and lower Boomed screed volume, partly offset by price increases.

OPERATING EXPENSES

Operating expenses for 2023 were approximately US\$ 33.8m (2022: US\$ 33.1), which is reflective of increased staffing that includes investment in sales and support staff in the US and abroad, and increased travel, offset by lower incentive compensation and sales commissions.

DEBT

As of December 31, 2023, 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\$ 0.2m of other income in 2023, compared to US\$ 1.0m of other expense in 2022, primarily due to a lower unrealized foreign currency exchange loss.

PROVISION FOR INCOME TAXES

The provision for income taxes was US\$ 5.3m in 2023 compared to US\$ 9.7m in 2022. Overall, Somero's effective tax rate changed to 15.8% in 2023 from 23.7% in 2022, due to the removal of an uncertain tax position, previously reflected as a liability, upon IRS acceptance.

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,	
	2023 US\$ 000	2022 US\$ 000
Income available to stockholders	27,978	31,119
Basic weighted shares outstanding	55,735,120	55,947,900
Net dilutive effect of restricted stock units	617,553	661,193
Diluted weighted average shares outstanding	56,352,673	56,609,093
	Per Share US\$	Per Share US\$
Basic earnings per share	0.50	0.56
Diluted earnings per share	0.50	0.55
Basic adjusted net income per share	0.46	0.55
Diluted adjusted net income per share	0.46	0.55

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

**EXTERNAL
RISKS**

**STRATEGY
RISKS**

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

MANAGEABLE RISKS

**OPERATIONAL
RISKS**

**FINANCIAL
RISKS**

**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.

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 (ceased operations in December 2023), 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.

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, 2023, the Company had not drawn any amounts under the revolving portion of its Citizens Bank Financing Agreement.

BOARD OF DIRECTORS

OUR TEAM

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.

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 over 45 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.

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.

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.

VINCENZO LICAUSI**Chief Financial Officer, Secretary and Director**

Mr. LiCausi, age 50, joined Somero in September 2018 as Vice President of Finance & Controller. Mr. LiCausi has over 25 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. Ms. Ellis experience includes as a director on 16 boards, chairing four. Additionally, she serves as a strategic advisor to several engineering and environmental companies as well as construction technology start-ups. She is immediate past-chair of 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.

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) sets out those disclosures that the Company is required to include in its Annual Report as well as information relating to how the Company may deviate from the Code.

In accordance with Principle 1 of the Code, the Company's business model and strategy, including key challenges in their execution and how these are addressed, are set out on pages 14 – 15 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 22 – 23 of this Annual Report. Somero strives to develop long-standing relationships with customers and shareholders alike; maintaining open lines of communication, availability to conduct site tours and a robust library of online content that demonstrates the unique value proposition of our products. For further information, please contact Somero at www.somero.com.

In accordance with Principle 4 of the Code, the Board reviews the Company's strategic plans each year. On a regular basis, the Company's significant risks are updated and appropriate control strategies and accountabilities are agreed. The Board has set clear terms of reference for each of its committees and the Company has an organizational structure with clearly defined and documented delegation of authority to executive management and reporting systems for financial results, risk exposure and control assessment. The Company has a comprehensive system for reporting financial results to the Board. The Company is committed to competence and integrity of management and staff at all levels, through its values statement, comprehensive recruitment, training and appraisal programs. The Company has established controls and procedures over the security of data held on computer systems and has put in place suitable disaster recovery arrangements. A number of the Company's key functions, including treasury and taxation, are dealt with centrally.

The Chief Financial Officer reports on an as-needed basis to keep the Board updated. There is no dedicated resource for internal audit functions, which is considered sufficient for the Company due to its size. Day-to-day management of the Company's activities is delegated to senior management and is considered sufficient for the Company. The Board has overall responsibility for identifying, evaluating and managing major business risks facing the Company. It annually reviews all operating unit assessments of business risk exposure and control, including compliance assessments, and determines appropriate action, taking into account the recommendations of senior management.

An ongoing review of the effectiveness of the system of internal control 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 seven Directors, three of whom are Executive Directors and four of whom are Non-Executive Directors.

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. Director qualification for serving on the Company's Board take into consideration a number of factors including, but not limited to, experience, functional discipline, industry knowledge, external appointments, time availability and cultural fit that are aligned with the size and unique profile of the Company. The combination of being a small company that has established itself as the leader in a niche industry segment through product innovation, global expansion, unmatched industry expertise and extensive direct customer engagement with strong financial fundamentals presents an inimitable business profile. Accordingly, this inherent uniqueness necessitates a Board with commensurate attributes. Whilst, corporate governance, policies and oversight remain at the forefront, the composition of the Company's Board enables it to also provide significant strategic insight, operational guidance, accessibility, time commitment, engagement and unparalleled industry experience and knowledge that has been and will continue to be invaluable to the Company.

The Board believes that the current composition, experience, and skill sets as outlined on pages 22 – 23 of this report are sufficient for the Company's current size (the Company is a small company) and objectives. The Board has been structured to ensure that an appropriate mix of skills, experience and diversity are in place to allow it to operate effectively and to support the development and achievement of the Company's strategy and long-term goals.

The composition of the Board is 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. None of the Directors hold more than five mandates at listed companies, serve as executive officers of any public company, nor serve as director on more than five public company boards. During the year, there were 12 regularly scheduled monthly Board meetings, with all Directors attending.

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 in addition to tenure, including dependency on compensation as a Director of the Company, size of shareholdings, commercial relationships with the company and/or incentive pay agreements. Neither Mr. Horsch nor Mr. Anderson are dependent on the compensation as a Director of the Company, which is based on a fixed cash fee, do not have material shareholdings in the Company nor any commercial relationships either directly or indirectly with the Company, nor participate in any performance-related pay schemes and 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.

In accordance with Principle 6 of the Code, the Board's membership consists of the individuals whose credentials are outlined on pages 30 – 31 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 22– 23 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 28 – 29 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 30 – 31 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's role, 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.

CORPORATE GOVERNANCE REPORT CONTINUED

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.

During the year, there were two Audit Committee meetings with full attendance.

	Year ended December 31, 2023 US\$ 000	Year ended December 31, 2022 US\$ 000
Audit	129	158
Other	–	–

The Company also separately engages a tax advisor in matters relating to tax compliance and filings.

	Year ended December 31, 2023 US\$ 000	Year ended December 31, 2022 US\$ 000
Tax	224	260
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.

During the year there were three Remuneration Committee meetings with full attendance.

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.

During the year, there was one Nomination Committee meeting with full attendance.

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, 2023.

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 28 – 29 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 judgment 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 30 – 31 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 twice per year. The meetings were attended by the CEO, President, and CFO, as well as the external auditor, Whitley Penn LLP ("Whitley Penn"). In 2023, 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.

ACTIVITIES OF THE AUDIT COMMITTEE DURING THE YEAR

Financial Reporting

The Audit Committee reviewed the content of the half-year and full-year results announcement and the 2023 Annual Report & Accounts to ensure the integrity of the content, financial statements, and related disclosures. The Audit Committee does this by considering, among other things, the accounting policies and practices adopted by the Company; the application of applicable reporting standards and compliance with broader governance requirements; reports detailing the approach taken by management to the key judgment areas from the external auditors.

The Audit Committee also considers significant issues including whether the business remains a going concern and whether the Annual Report & Accounts are fair, balanced and understandable, and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

External Audit

Following an auditor tender process in 2022, at the recommendations 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 in the tender process, 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.

The external auditor reports to the Audit Committee on actions taken to comply with professional and regulatory requirements. In addition, the Audit Committee considers risk areas that might inform the audit strategy, which are discussed with the external auditors.

The Audit Committee reviewed the scope of Whitley Penn's audit and reports outlining the audit work performed and conclusions reached on key risk areas and on the disclosures in the Annual Report & Accounts. The Audit Committee agreed with the key risk areas identified by the auditors.

The Audit Committee has confirmed it is satisfied with the independence, objectivity and effectiveness of Whitley Penn as auditor and will support a resolution to retain them at the forthcoming Annual General Meeting.

No non-audit services were provided by the external auditors during the fiscal year.

Risk Review

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.

The Audit Committee is satisfied that the risk review process is sufficiently rigorous.

Robert Scheuer

Chair of the Audit Committee
March 5, 2024

DIRECTORS' REMUNERATION REPORT

	Cash salary 2023	Bonus 2023	Bonus paid in common shares 2023 ⁽¹⁾	Other Remuneration 2023	Total 2023	Salary 2024	Restricted stock units held at 31 Dec 2023
Executive Directors							
J Cooney	\$580,057	\$64,613	–	–	\$644,670	\$609,060	127,666
J Yuncza ⁽²⁾	\$282,545	\$31,441	–	\$141,272	\$455,258	–	25,413
V LiCausi	\$318,932	\$28,421	–	–	\$347,353	\$334,879	56,009
H Hohmann	\$390,841	\$43,536	–	–	\$434,377	\$410,383	86,029
Non-Executive Directors							
L Horsch	\$158,276	–	–	–	\$158,276	\$166,190	–
T Anderson	\$113,031	–	–	–	\$113,031	\$118,683	–
A Ellis	\$113,031	–	–	–	\$113,031	\$118,683	–
R Scheuer	\$113,031	–	–	–	\$113,031	\$118,683	–

Notes:

1. The amount included in the 2023 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.
2. The amounts included reflect salary while Mr. Yuncza served in the role of President through 28 August 2023, and a pro rata bonus and severance pay pursuant to the terms of the Separation Agreement entered on 28 August 2023.
3. No options were held by any Directors at 31 December 2023.

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. In setting compensation, the Remuneration Committee takes account of the fairness and competitiveness of Executive and Non-Executive Compensation in comparison to peer companies and with regard to the US labor market. The Remuneration of Non-Executive Directors is approved by the Board. In framing remuneration policy, the Remuneration Committee has given consideration to the requirements of the Code.

COMPONENTS OF REMUNERATION

The components of executive 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 2023 and 2024 is 100% of salary; and
- 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.

Non-Executive Directors receive board fees solely in cash and no equity-based remuneration.

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 2023 and 2024 are set out in the table above. All salaries and fees were increased by 5.0% effective 1 January 2024 in line with the general salary increase across the employee base.

ANNUAL BONUS

In the year ended December 31, 2023, the Executive Directors earned bonuses as shown in the table above.

Bonus earned for 2023 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 2023, the annual established target approved by the Remuneration Committee was based on EBITDA.

In 2023, EBITDA was well below the target due to factors that impacted trading in North Americas, as discussed elsewhere in this Annual Report. As a result, the bonus payout was at the low end of the sliding scale.

The annual bonus will operate in a similar manner in 2024.

DIRECTORS' CONTRACTS

The Company has entered into employment agreements with Executive Directors and certain members of senior management. The terms of these agreements are 12 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 2023 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 55.6 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 2023, Executive Directors were awarded RSUs as part of their annual incentive compensation plans. In line with the approach outlined above, on 13 March 2023 the Company made awards to Jack Cooney, Howard Hohmann and Vincenzo LiCausi with a value at 40% of salary as detailed in the table below. A further 118,890 RSU awards to non-Director employees on the same date. Awarded RSUs vest three years from the date of the grant and require continued employment for the period. In 2023, 307,845 RSUs were exercised and 73,832 awards were forfeited. 284,437 units were issued leaving a balance of 570,750 units as of 31 December 2023. For more information, see Note 15 within the Notes to the Financial Statements.

Details of Directors' restricted stock units awarded, exercised and outstanding during 2023 are set out in the table below.

DIRECTOR RESTRICTED STOCK UNITS

Director	Grant Date	January 1, 2023	Award (Exercise)	Canceled	December 31, 2023	Weighted average grant date fair market value per unit (USD)	Weighted average grant date total fair market value (USD)	Vesting date	Fully vested date
Executive Directors									
H Hohmann	3/13/2023	–	36,334	–	36,334	4.30	156,340	3/13/2026	3/13/2026
H Hohmann	3/12/2022	23,123	–	–	23,123	6.44	148,894	3/11/2025	3/11/2025
H Hohmann	3/13/2021	26,572	–	–	26,572	5.09	135,360	3/12/2024	3/12/2024
H Hohmann	3/13/2020	46,512	(46,512)	–	–	2.83	131,629	3/13/2023	3/13/2023
J Cooney	3/13/2023	–	53,923	–	53,923	4.30	232,024	3/13/2026	3/13/2026
J Cooney	3/12/2022	34,317	–	–	34,317	6.44	220,975	3/11/2025	3/11/2025
J Cooney	3/13/2021	39,426	–	–	39,426	5.09	200,839	3/12/2024	3/12/2024
J Cooney	3/13/2020	69,030	(69,030)	–	–	2.83	195,355	3/13/2023	3/13/2023
J Yuncza	3/13/2023	–	39,399	(39,399)	–	4.30	169,529	3/13/2026	3/13/2026
J Yuncza	3/12/2022	25,074	–	(25,074)	–	6.44	161,457	3/11/2025	3/11/2025
J Yuncza	3/13/2021	25,413	–	–	25,413	5.09	129,456	3/12/2024	3/12/2024
J Yuncza	3/13/2020	44,484	(44,484)	–	–	2.83	125,890	3/13/2023	3/13/2023
V LiCausi	3/13/2023	–	29,649	–	29,649	4.30	127,576	3/13/2026	3/13/2026
V LiCausi	3/12/2022	14,152	–	–	14,152	6.44	91,128	3/11/2025	3/11/2025
V LiCausi	3/13/2021	12,208	–	–	12,208	5.09	62,189	3/12/2024	3/12/2024
V LiCausi	3/13/2020	21,369	(21,369)	–	–	2.83	60,474	3/13/2023	3/13/2023

DIRECTORS' REMUNERATION REPORT CONTINUED

DIRECTOR ORDINARY SHARES

	Ordinary Shares	
	January 1, 2023	December 31, 2023
L Horsch	46,000	46,000
J Cooney	614,634	614,634
H Hohmann	43,266	–
V LiCausi	56,084	66,469
T Anderson	–	–
A Ellis	–	8,000
R Scheuer	25,000	25,000

The letters of appointment and terms are listed in the following chart.

Director	Class	Date of appointment	Termination date
J Cooney	III	June 15, 2021	2024 AGM
H Hohmann	III	June 15, 2021	2024 AGM
A Ellis	III	January 3, 2022	2024 AGM
R Scheuer	I	June 14, 2022	2025 AGM
L Horsch	II	May 18, 2023	2026 AGM
T Anderson	II	May 18, 2023	2026 AGM
V LiCausi	II	May 18, 2023	2026 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 2023, a total, including awards to Executive Directors, of 381,677 RSUs were exercised or forfeited, and 284,437 units were issued, leaving a balance of 570,750 units as of December 31, 2023. For more information, see Note 15 within the Notes to the Financial Statements.

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

ANNUAL GENERAL MEETING

At our AGM in May 2023, we voluntarily put our Remuneration Report to an advisory resolution as we have in previous years. In response to proxy adviser comments in 2022, we included additional information in our 2022 Remuneration Report on the Company’s RSU policy including the rationale for making awards of this structure because the Company is US-based and specifying that awards are made at 40% of salary and so in line with guidance in the UK Investment Association Principles of Remuneration. Executive salary increases for 2023 and 2024 are in line with those of the wider workforce.

DIRECTORS' REPORT

The Directors present their Annual Report and the audited financial statements for the year ended December 31, 2023.

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\$ 19.0m were paid in 2023. A 20.6 US cents per share dividend was declared for the period ending December 31, 2023, with a record date of April 12, 2024, payable on May 5, 2024.

Performance graph

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, 2023 was 375p. The range during the 2023 period of trading was 257.0p to 450.0p.



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)	4,435,279	7.99
Close Brothers Asset Management	3,800,867	6.85
Chelverton Asset Management	3,610,000	6.50
Canaccord Genuity Wealth Management (Inst)	3,475,000	6.26
Interactive Investor (EO)	3,097,163	5.58
Unicorn Asset Management	2,710,310	4.88
Société Générale (Awaiting custodian response)	2,438,291	4.39
AJ Bell, stockbrokers (EO)	1,938,018	3.49
Allianz Global Investors	1,752,379	3.16

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

The Company 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 22 – 23 of this Annual Report.

DONATIONS

During the year, the Company made no political donations. Charitable donations were made in the amount of US\$ 103,000 for 2023. For more information regarding Somero's community support, please refer to the Stakeholder Engagement section on pages 22 – 23 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 19 – 23 of this Annual Report.

Vincenzo LiCausi

Company Secretary
March 5, 2024

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, 2023 and 2022, 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, 2023 and 2022, 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.

Other Information

Management is responsible for the other information attached to the financial statements. The other information comprises the management discussion and analysis but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.



Fort Worth, Texas
March 5, 2024

CONSOLIDATED BALANCE SHEETS

As of December 31, 2023 and 2022

	As of December 31,	
	2023 US\$ 000	2022 US\$ 000
Assets		
Current assets:		
Cash and cash equivalents	33,311	33,699
Accounts receivable – net	8,835	10,315
Inventories – net	19,375	18,849
Prepaid expenses and other assets	2,388	2,022
Income tax receivable	–	702
Total current assets	63,909	65,587
Accounts receivable, non-current – net	431	414
Property, plant, and equipment – net	25,928	25,650
Financing lease right-of-use assets – net	346	323
Operating lease right-of-use assets – net	1,606	1,066
Intangible assets – net	1,120	1,257
Goodwill	3,294	3,294
Deferred tax asset	1,674	1,165
Other assets	242	235
Total assets	98,550	98,991
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	3,410	9,683
Accrued expenses	7,768	8,495
Financing lease liability – current	199	175
Operating lease liability – current	342	304
Income tax payable	2,099	–
Total current liabilities	13,818	18,657
Financing lease liability – long-term	110	98
Operating lease liability – long-term	1,305	799
Other liabilities	82	2,311
Total liabilities	15,315	21,865
Stockholders' equity		
Preferred stock, US\$.001 par value, 50,000,000 shares authorized, no shares issued and outstanding	–	–
Common stock, US\$.001 par value, 80,000,000 shares authorized, 55,550,697 and 55,818,357 shares issued and 55,499,368 and 55,812,857 shares outstanding at December 31, 2023 and 2022, respectively	26	26
Less: treasury stock, shares 51,329 as of December 31, 2023 and 5,500 shares as of December 31, 2022 at cost	(213)	(39)
Additional paid in capital	13,253	14,625
Retained earnings	72,498	64,325
Other comprehensive loss	(2,329)	(1,811)
Total stockholders' equity	83,235	77,126
Total liabilities and stockholders' equity	98,550	98,991

See Notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended December 31, 2023 and 2022

	Year ended December 31,	
	2023 US\$ 000 except share and per share data	2022 US\$ 000 except share and per share data
Revenue	120,699	133,590
Cost of sales	53,343	57,431
Gross profit	67,356	76,159
Operating expenses		
Sales, marketing and customer support	14,742	14,289
Engineering and product development	2,679	2,600
General and administrative	16,340	16,170
Total operating expenses	33,761	33,059
Operating income	33,595	43,100
Other income (expense)		
Interest expense	(19)	(18)
Interest income	196	62
Foreign exchange impact	(731)	(1,342)
Other	196	(1,001)
Income before income taxes	33,237	40,801
Provision for income taxes	5,259	9,682
Net income	27,978	31,119
Other comprehensive income		
Cumulative translation adjustment	(518)	658
Comprehensive income	27,460	31,777
Earnings per common share		
Earnings per share – basic	0.50	0.56
Earnings per share – diluted	0.50	0.55
Weighted average number of common shares outstanding		
Basic	55,735,120	55,947,900
Diluted	56,352,673	56,609,093

See Notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the years ended December 31, 2023 and 2022

	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			
Balance – January 1, 2022	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 buyback	–	–	–	282,420	(1,427)	–	–	(1,427)
New shares Issued	55,353	–	–	–	–	–	–	–
Balance – December 31, 2022	55,818,357	26	14,625	5,500	(39)	64,325	(1,811)	77,126
Cumulative translation adjustment	–	–	–	–	–	–	(518)	(518)
Net income	–	–	–	–	–	27,978	–	27,978
Stock-based compensation	–	–	985	–	–	–	–	985
Dividend	–	–	–	–	–	(19,805)	–	(19,805)
Treasury stock	(327,806)	–	(1,202)	(327,806)	1,202	–	–	–
RSUs settled for cash	–	–	(1,155)	–	–	–	–	(1,155)
Share buyback	–	–	–	373,635	(1,376)	–	–	(1,376)
New shares issued	60,146	–	–	–	–	–	–	–
Balance – December 31, 2023	55,550,697	26	13,253	51,329	(213)	72,498	(2,329)	83,235

See Notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2023 and 2022

	Year ended December 31,	
	2023 US\$ 000	2022 US\$ 000
Cash flows from operating activities:		
Net income	27,978	31,119
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred taxes	(510)	(993)
Depreciation and amortization	1,560	1,457
Non-cash lease expense	319	304
Bad debt expense (recoveries)	(4)	247
Stock-based compensation	985	1,165
Gain/Loss on disposal of property and equipment	40	(158)
Working capital changes:		
Accounts receivable	1,468	(2,824)
Inventories	(526)	(4,556)
Prepaid expenses and other assets	(366)	(273)
Other assets	(7)	159
Accounts payable, accrued expenses and other liabilities	(9,292)	481
Income taxes receivable/payable	2,801	1,674
Net cash provided by operating activities	24,446	27,802
Cash flows from investing activities:		
Proceeds from sale of property and equipment	–	143
Property and equipment purchases	(1,740)	(5,367)
Net cash used in investing activities	(1,740)	(5,224)
Cash flows from financing activities:		
Payment of dividend	(19,805)	(28,981)
RSUs settled for cash	(1,155)	(1,073)
Stock buyback	(1,376)	(1,427)
Payments under financing leases	(240)	(202)
Net cash used in financing activities	(22,576)	(31,683)
Effect of exchange rates on cash and cash equivalents	(518)	658
Net decrease in cash and cash equivalents	(388)	(8,447)
Cash and cash equivalents:		
Beginning of year	33,699	42,146
End of year	33,311	33,699

See Notes to consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of December 31, 2023 and 2022

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.

Restricted Cash

Restricted cash of approximately US\$ 251,000 is included in “Cash and cash equivalents” on the consolidated balance sheet as of December 31, 2023. This represents cash deposited by the Company into a guaranteed deposit account and designated as collateral for the building lease in Australia in accordance with the lease agreement.

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 estimate of future losses. As of December 31, 2023 and 2022, the allowance for doubtful accounts was approximately US\$ 1,862,000 and US\$ 1,780,000, respectively. Bad debt expense (recovery) was US\$ (4,000) and US\$ 247,000 in 2023 and 2022, respectively. The opening balance of accounts receivable at January 1, 2022 was \$ 8,152,000, which includes \$ 461,000 of non-current accounts receivable.

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, 2023 and 2022, the provision for obsolete and slow-moving inventory was US\$ 707,000 and US\$ 643,000, 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 seventeen years, which is their estimated period of economic benefit.

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

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 at a point in time once the service or training has occurred.

As of December 31, 2023 and 2022 there are US\$ 600,000 and US\$ 582,000, respectively, of extended service agreement liabilities. The opening balance of extended service agreement liabilities at January 1, 2022 was US\$ 517,000. During the years ended December 31, 2023 and 2022, US\$ 451,000 and US\$ 425,000, respectively, of revenue was recognized related to the amounts recorded as liabilities on the consolidated balance sheets in the prior year (deferred contract revenue).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

As of December 31, 2023 and 2022, there are US\$ 1,635,000 and US\$ 2,180,000, respectively, in customer deposit liabilities for advance payments received during the period for contracts expected the following period. The opening balance of customer deposit liabilities for advance payments received at January 1, 2022 was US\$ 4,009,000. As of the year ended December 31, 2023 and 2022, 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, 2022	(1,986)
Warranty charges	808
Accruals	(270)
Balance, December 31, 2022	(1,448)

	US\$ 000
Balance, January 1, 2023	(1,448)
Warranty charges	986
Accruals	(828)
Balance, December 31, 2023	(1,290)

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, which is the stock price on the grant date multiplied by the number of shares. Compensation expense related to stock-based payments was US\$ 985,000 and US\$ 1,165,000 for the years ended December 31, 2023 and 2022, respectively. In addition, the Company settled US\$ 1,155,000 and US\$ 1,073,000 in restricted stock units for cash during the years ended December 31, 2023 and 2022, 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 impact in the accompanying consolidated statements of comprehensive income.

Comprehensive income

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

Earnings per share

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

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

	Year ended December 31,	
	2023 US\$ 000	2022 US\$ 000
Income available to stockholders	27,978	31,119
Basic weighted shares outstanding	55,735,120	55,947,900
Net dilutive effect of stock options and restricted stock units	617,553	661,193
Diluted weighted average shares outstanding	56,352,673	56,609,093

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.

Recently Adopted Accounting Guidance

In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU” or “standard”) 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. Subsequently, the FASB issued several clarifying standard updates to clarify and improve the ASU. These ASUs significantly change how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The most significant change in this standard is a shift from the incurred loss model to the expected loss model that will be based on an estimate of current expected credit loss (“CECL”). Under the standard, disclosures are required to provide users of the financial statements with useful information in analyzing an entity’s exposure to credit risk and the measurement of credit losses. Financial assets held by the Company that are subject to the guidance in Topic 326 were trade accounts receivable.

The Company adopted the standard effective January 1, 2023. The impact of the adoption was not considered material to the financial statements and primarily resulted in new and enhanced disclosures only.

3. INVENTORIES

Inventories consisted of the following:

	Year ended December 31,	
	2023 US\$ 000	2022 US\$ 000
Raw material	10,607	11,393
Finished goods and work in process	5,161	5,768
Remanufactured	1,688	3,607
Total	19,375	18,849

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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, 2023 and 2022, and that the value of patents and other intangibles were not impaired as of December 31, 2023 and 2022. The following table reflects other intangible assets:

		Weighted average Amortization Period	Year ended December 31,	
			2023 US\$ 000	2022 US\$ 000
Capitalized cost	Patents Intangible Assets	12 years	19,247 7,434	19,247 7,434
			26,681	26,681
Accumulated amortization	Patents Intangible Assets	12 years	18,770 6,791	18,721 6,703
			25,559	25,424
Net carrying costs	Patents Intangible Assets	12 years	477 643	526 731
			1,120	1,257

Amortization expense associated with the intangible assets in each of the years ended December 31, 2023 and 2022 was approximately US\$ 135,000 and US\$ 135,000, respectively. The amortization expense for each of the next five years will be US\$ 135,000 and the remaining amortization thereafter will be US\$ 445,000.

5. PROPERTY, PLANT, AND EQUIPMENT

Property, plant and equipment consist of the following:

		Year ended December 31,	
		2023 US\$ 000	2022 US\$ 000
Land		864	864
Building and improvements		25,465	24,812
Machinery and equipment		8,487	8,744
		34,816	34,420
Less: accumulated depreciation and amortization		(8,888)	(8,770)
		25,928	25,650

Depreciation expense for the years ended December 31, 2023 and 2022 was approximately US\$ 1,425,000 and US\$ 1,322,000, respectively.

6. LINE OF CREDIT

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, 2023 or 2022.

Interest expense for the years ended December 31, 2023 and 2022 was approximately US\$ 19,000 and US\$ 18,000, 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\$ 1,039,000 to the savings and retirement plan during 2023 and contributed US\$ 1,058,000 during 2022.

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 1 year to 9 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. Some of our building leases have additional fees related to maintenance costs, property taxes, etc. We have elected the practical expedient not to separate lease and non-lease components for all of our building leases. In addition, we have elected the short-term lease practical expedient related to leases of various equipment which the lease term is less than 12 months. The components for lease expense were as follows as of December 31, 2023:

	US\$ 000
Operating lease cost	407
Finance lease cost:	
Amortization of right-of-use assets	319
Interest on lease liabilities	17
Total finance lease cost	336

As of December 31, 2023, the weighted average discount rate for finance and operating leases was 5.4% and 5.3%, respectively, and the weighted average remaining lease term for finance and operating leases was 1.8 years and 6.1 years, respectively.

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

	Operating Leases US\$ 000	Finance Leases US\$ 000
2024	421	210
2025	311	80
2026	311	27
2027	311	8
2028	186	–
Thereafter	386	–
Total	1,926	325
Less imputed interest	(279)	(16)
Total	1,647	309

9. SUPPLEMENTAL CASH FLOW AND NON-CASH FINANCING DISCLOSURES

	Year ended December 31,	
	2023 US\$ 000	2022 US\$ 000
Cash paid for interest	19	18
Cash paid for taxes	4,858	8,806
Finance lease liabilities arising from obtaining right-of-use assets	35	(37)
Operating lease liabilities arising from obtaining right-of-use assets	544	(513)

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, 2023 and 2022, the Company had three customers which represented 32% and five customers which represented 42% of total accounts receivable, respectively.

11. ALLOWANCE FOR CREDIT LOSSES

The allowance for credit losses for accounts receivable and the related activity as of December 31:

	2023 US\$ 000	2022 US\$ 000
Beginning balance	1,780	1,638
Provision for credit losses	9	185
Write-offs	(52)	(43)
Recoveries	125	–
Ending balance	1,862	1,780

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

12. COMMITMENTS AND CONTINGENCIES

The Company has entered into employment agreements with certain members of senior management. The terms of these are for renewable one-year periods and include non-compete and non-disclosure provisions as well as provide for defined severance payments in the event of termination or change in control.

The Company is also subject to various unresolved legal actions which arise in the normal course of its business. Although it is not possible to predict with certainty the outcome of these unresolved legal actions or the range of possible losses, the Company believes these unresolved legal actions will not have a material effect on its consolidated financial statements.

13. INCOME TAXES

	Year ended December 31,	
	2023 US\$ 000	2022 US\$ 000
Current Income Tax		
Federal	4,133	8,703
State	1,286	1,332
Foreign	349	640
Total current income tax expense	5,768	10,675
Deferred tax benefit		
Federal	(474)	(820)
State	(35)	(89)
Foreign	–	(84)
Total deferred tax benefit	(509)	(993)
Total tax provision	5,259	9,682

As of December 31, 2023 and 2022, the effects of temporary differences that give rise to the deferred tax assets are as follows:

	Year ended December 31,	
	2023 US\$ 000	2022 US\$ 000
Deferred tax assets		
Bad debt allowance	317	349
Inventory	283	325
Accrued expenses	405	343
UK intangibles	146	146
Stock compensation	377	386
Italy – NOL	454	385
Lease liability	26	43
Capital research expenditures	1,155	683
Other	521	494
Total deferred tax assets	3,684	3,154
Deferred tax liabilities		
Prepaid insurance	(158)	(149)
Fixed assets	(859)	(783)
Intangible assets	(502)	(631)
Right-of-use asset	(37)	(41)
Total deferred tax liabilities	(1,556)	(1,604)
Valuation allowance	(454)	(385)
Total net deferred tax asset	1,674	1,165

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

	Year ended December 31,	
	2023 US\$ 000	2022 US\$ 000
Consolidated income before tax	33,237	40,801
Statutory rate	21%	21%
Statutory tax expense	6,980	8,568
State taxes	909	1,007
Foreign taxes	245	723
Permanent differences due to stock options and RSUs	(33)	(55)
Permanent differences due to other items	152	344
Foreign derived intangible income	(624)	(738)
Change in valuation allowance	69	117
Change in reserve	(2,193)	–
Tax credits	(182)	(158)
Other	(64)	(126)
Tax expense	5,259	9,682

As of December 31, 2023, the Company has US\$ 1.89m 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, 2023 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 2020 and forward at the end of December 31, 2023. 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 2018 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, 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
Unrecognized tax benefits – January 1, 2023	1,450
Increases from positions taken during prior periods	–
Increases from positions taken during current period	–
Settled positions	(1,450)
Lapse of statute of limitations	–
Unrecognized tax benefits – December 31, 2023	–

During the tax year ended December 31, 2023 the Company settled all uncertain tax position that existed as of December 31, 2022 and, as a result, removed the unrecognized tax reserve classed as "Other Long-Term Liabilities" from the Company's Consolidated Balance Sheet.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

14. REVENUES BY GEOGRAPHIC REGION

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

	2023 US\$ 000	2022 US\$ 000
United States and U.S. possessions	88,374	101,773
Rest of World	32,325	31,817
Total	120,699	133,590

15. STOCK-BASED COMPENSATION

The Company has stock-based compensation plans which are described below. The compensation cost that has been charged against income for the plans was approximately US\$ 985,000 and US\$ 1,165,000 for the years ended December 31, 2023 and 2022, respectively. The income tax effect recognized for stock-based compensation was US\$ 0.2m and US\$ 0.3m, respectively, for the years ended December 31, 2023 and 2022.

Restricted stock units

The Company regularly issues restricted stock units to employees subject to Board approval. The Company establishes the fair market value of the restricted stock units at the grant date, based on the stock price and applicable exchange rate.

A summary of restricted stock unit activity in 2023 and 2022 is presented below:

	Shares	Grant date fair market value US\$
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
	Shares	Grant date fair market value US\$
Outstanding at January 1, 2023	667,990	2,935,144
Granted	284,437	1,217,027
Vested or settled for cash	(307,845)	(869,737)
Forfeited	(73,832)	(380,981)
Outstanding at December 31, 2023	570,750	2,901,453

RSUs settled for cash were US\$ 1.2m in 2023 and US\$ 1.1m in 2022.

As of December 31, 2023, there was US\$ 1,201,000 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 1.34 years.

16. EMPLOYEE COMPENSATION

The Board approved management bonuses and profit-sharing payments totaling US\$ 1.2m, partly paid in December 2023 and the remainder to be paid in early 2024, based upon the Company meeting certain financial targets. Amounts not paid during 2024, 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 2023, the Company issued 21,114 shares of common stock, valued at US\$ 91,000 at the time of grant. In March 2022, the Company issued 40,467 shares of common stock, valued at US\$ 261,000 at the time of grant.

17. SHARE BUYBACK

In February 2022 and 2023, 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 for each program. The maximum price paid per common share was no more than the higher of 105 percent of the average middle market closing price of common 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, 2023, the Company purchased 217,919 shares of common stock for an aggregate value of US\$ 765,000 pursuant to the share buyback program authorized in 2023, and 155,716 shares of common stock for an aggregate value of US\$ 611,000, which completed the share buyback program authorized in 2022. The Company estimates the share buyback program authorized in 2023 will be completed by the end of H1 2024. In connection with the Company's share buyback programs authorized in 2023 and 2022, 327,806 shares held in treasury were canceled in 2023.

18. SUBSEQUENT EVENTS

In preparing the consolidated financial statements, the Company has evaluated all subsequent events and transactions for potential recognition or disclosure through March 5, 2024, the date the consolidated financial statements were available for issuance.

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 2023 dividend of 13.19 US cents per share that will be payable on May 10, 2024 to shareholders on the register at April 12, 2024. Together with the interim dividend paid in October 2023 of 10.00 US cents per share, this represents a full year regular dividend to shareholders of 23.19 US cents per share. In addition, due to the strength of the Company's cash position at the end of 2023, and upon the review of anticipated future cash requirements for the business, the Board of Directors' has approved a supplemental dividend of 7.4 US cents per share that will be paid together with the final 2023 dividend on May 10, 2024 to shareholders on the register at April 12, 2024. The combined dividend payment will total 20.59 US cents per share, representing a total dividend payment of US\$ 11.4m.

Distribution amount:	\$0.2059 cents per share
Ex-dividend date:	11 April 2024
Dividend record date:	12 April 2024
Final day for currency election:	26 April 2024
Payment date:	10 May 2024

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 January 2024, the Board approved the 2023 Equity Bonus Plan, under which eligible senior managers can elect to receive up to 100% of their 2023 annual performance bonus in shares of common stock. The Company expects to issue shares for awards under the 2023 Equity Bonus Plan in 2024.

Share buyback

In January 2024, 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 2024.

OTHER UNAUDITED INFORMATION

DIVIDEND

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.

ANNUAL GENERAL MEETING

The Annual General Meeting of Stockholders (the "AGM") of the Company will be held at 14530 Global Parkway, Fort Myers, FL 33913 USA on June 18, 2024 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 May 17, 2024 will be entitled to receive notice of, and vote at, the AGM.



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