ERII Q4 2025 Letter to Shareholders

Fellow Shareholders,

This letter details several important updates about our business. Key highlights are:

- Our core Water business is driven by global water scarcity, a large, enduring secular megatrend driving 8-11% expected annual growth in our end markets of desalination and water reuse over the next 5 years. We have a strong market position and industry-leading margins. We are excited to now bring the full extent of our focus and resources to driving profitable growth in this business.

- We have made the decision to wind down our CO_2 retail grocery business effective immediately, enabling this focus.
  - As discussions with customers have evolved in the last several months, it has become increasingly evident that scaled adoption would require significant time, investment, and risk. We believe this investment no longer meets our capital allocation criteria and thus acted quickly in an effort to maximize shareholder value.
  - We expect to generate ~$7 million of annual run-rate savings from the wind down, or $0.10 in adjusted EPS.

- We are further extending our product and market leadership in desalination with the upcoming release of the PX Q650, overtaking our PX Q400 as the highest performing pressure exchanger on the market.
  - This next generation PX has far exceeded our original design goals, delivering unmatched value to customers.
  - Importantly, this product launch demonstrates our accelerated pace of innovation.

- Our business is driven by large projects with underlying schedule risk. Recent delays of several large Megaprojects have resulted in our customers shifting the timing of deliveries, which impacts our 2025 and 2026 revenue.
  - 2025 Desalination revenue was below our guided range due to the two Megaprojects that ultimately slipped to 2026. We identified these project as “at risk” in our Q3 2025 shareholder letter. We would have met our guidance had delayed projects shipped on time.
  - We have de-risked our 2026 guidance range by assuming we endure the full revenue impact of delays.

- We expect Desalination growth in 2027 driven by historically high desalination contracting activity and our long-term pipeline.
  - 2025 annual contracted capacity, as reported by Global Water Intelligence (“GWI”), grew over 30% from the trailing three-year average and set a new historical peak (prior peak in 2019). As a reminder, the annual contracted capacity amount is a leading indicator for our business as it represents the total desalination capacity expected to come online in the 1-3 years following contracting .
  - We maintain a long-term project pipeline of $550 million, which we expect to realize over the next several years. As such, we look forward to growth in 2027 and beyond.

- We remain focused on the things we can control regardless of the macro environment we face, including capital allocation rigor in the form of cost control (reduced our Opex to $64 million for the year from $77 million in 2024), manufacturing efficiency (footprint optimization), and capital return to shareholders (repurchased $85.5 million of stock since Q4’24).

- We have $19.4 million remaining under our existing share repurchase authorization as of December 31, 2025. With our current cash balance and expectations of future cash generation, we expect to maintain a steady pace of share repurchases.

Message from the CEO

As noted above, we are winding down our effort in the CO_2 retail grocery business. While this is disappointing, I am genuinely grateful for the hard work, energy, and talent that our employees put into this business over the past several years. Upon reaching the conclusion that the business wasn’t generating the customer traction we needed, we took swift action in an effort to maximize shareholder value.

Since joining as CEO two years ago, I have learned that desalination is a great business that is frustratingly susceptible to timing uncertainty. Project schedules are set and managed by customers, and are influenced by broader economic and geopolitical conditions, as well as project-specific factors. That said, the long-term growth trajectory of the market is clear, supported by industry data, our project pipeline, and durable underlying demand drivers. With our leading technology position and disciplined execution, we believe ERII is well positioned to capture this opportunity over time. Against this backdrop, we are managing ERII to thrive by focusing on several important areas:

- **Innovation**. Innovation and execution for customers remain at the center of everything we do. This is the engine that keeps us ahead of the market, and we intend to continue building upon our leadership position as we launch the PX Q650 this year, the best performing pressure exchanger on the market, eclipsing our own PX Q400.
- **Operational Efficiency**. We are optimizing costs at every level of the organization. Since 2024, we have reduced operating expenses by 17%, and we will reduce expenses further in 2026. We will also reduce manufacturing costs of our flagship products by double digits from 2024 to 2026. As we explore alternative low-cost manufacturing sites this year, cost savings will continue in 2027 and beyond.
- **Investing for growth with focus**. As we enter 2026, I'm excited about placing sharper focus on our core Water businesses. In Wastewater in particular, a small team at the start of 2024 has grown into nearly 20 professionals worldwide serving a large, growing and profitable end market. We see the potential for significant growth as we invest in this opportunity and ERII's pressure exchangers are adopted as the market standard.
- **Capital Allocation**. We have repurchased $85.5 million of stock, or 10% of our outstanding shares. We have sufficient cash today to support our business and will use future cash flow to maintain a steady pace of share repurchases.

As a management team, we're focused on keeping our heads down and running a lean organization that can execute our objectives irrespective of the macroeconomic and political climate. We're building for the long term, and we're confident in the heights this company can achieve. Thank you for your continued support.

2025 Results

Total revenue of $135.0 million was below our guided range. The entirety of the shortfall was attributable to delays at the request of our customers in the megaproject Desalination business, as the Wastewater business generated $7.9 million, at the low end of our guidance.

Gross margin for the year was 65.1%. Overall, we are pleased with our margin for the year given our efforts to offset the significant headwind from higher tariffs and the deleveraging from lower revenue. Underlying this margin outcome were strong manufacturing improvements, with flagship Q400 cost reduction year-over-year.

Despite the impact from higher tariffs, we were able to significantly reduce operating expenses for the year, with Opex of $64.0 million. This opex level (which included $0.9 million of impairment and restructuring costs) is $8 million lower than the midpoint of our original 2025 Opex guidance of $70 to $74 million.

Adjusted EBITDA(1) of $36.0 million and Adjusted EPS(1) of $0.58 reflect the lower revenue level from project delays, but benefitted from the strong Opex performance. Capex of $1.3 million also came in under our expectations.

We repurchased $3.4 million of the Company's shares in the quarter at an average price of $14.47 per share.

(1) Refer to the sections "Use of Non-GAAP Financial Measures" and "Reconciliation of Non-GAAP Financial Measures" or definitions of our non-GAAP financial measures and reconciliations of GAAP to non-GAAP amounts, respectively

Water Business

Energy Recovery has its full attention on addressing the global water scarcity problem. As such, we think it's timely to step back to discuss this market, drivers, and our strategy for capitalizing on its long-term growth potential.

For a large portion of the global population, water scarcity is a structural challenge driven by a mismatch between demand and availability. This demand gap is expected to intensify in the coming decades due to economic growth, urban densification and agriculture. More recently, electrification and digital infrastructure require massive amounts of ultra-pure water. As most aquifers globally are already depleting faster than they can recharge, there is a large and growing undersupply of freshwater. With declining supply, even the 1% annual growth in total global water demand will result in a large demand gap by 2040.

To combat this demand gap, over the next several decades, significant investment is expected in the two primary alternatives to surface and ground water: desalination and water reuse. In total, spending on desalination and water reuse is projected to increase 8-11% annually from 2025 through the end of the decade as shown in the chart below.

Total Capex – Water Desalination and Reuse ($bn)

(Source: GWI)

Desalination: In 2026, we are positioning our Desalination business to benefit from long-term market growth by focusing on innovation, product breadth, and manufacturing efficiency.

Desalination accounts for only 1% of water production globally and will continue to grow primarily because of its unmatched reliability and climate resilience. Seawater is abundant, predictable, and immune to drought, which makes desalination uniquely valuable in a world where variability—not average rainfall—is the binding constraint. This growth is fueled by the ever-decreasing costs of construction and operation, improving affordability and availability. As the average desalination facility size has increased over 8x in the past 20 years, construction costs per cubic meter have fallen over 50%. Operating costs are also decreasing because of ongoing innovation, including energy recovery devices, advanced pretreatment systems, and digital monitoring and process control. As a result, while desalination has historically been concentrated in Middle Eastern countries with low energy costs, in recent years construction has expanded globally to South America, North Africa, India, and East Asia. Desalination is now becoming a much more competitive water treatment technology and part of the water diversification and management strategies for many countries around the world.

This year, we will launch the PX Q650, our highest capacity and best performing energy recovery device, designed to meet the scale, efficiency, and reliability requirements of the desalination industry. At a time of record energy prices, the PX Q650's value proposition is clear: this next-generation device will deliver the lowest specific energy consumption on the market. Since the launch of our PX Q400 in 2022, the current best performing product on the market, we have engineered a step-function improvement in performance with the PX Q650: 63% increase in peak flow capacity and a 33% reduction in volumetric mixing, while maintaining the same durability and reliability, including a 30-year design life backed by a 10-year warranty and the industry's highest uptime.

We are also expanding our product breadth by partnering with leading manufacturers of ancillary products to create bundled solutions. Customers in our OEM and Aftermarket channels often seek a single supplier of multiple products, beyond our core pressure exchanger and pump portfolio. By partnering with other manufacturers, we can leverage our large, global salesforce to bring additional solutions to customers. In 2025, we executed three partnerships that will drive market share gains and revenue growth this year.

Finally, we are focused on manufacturing efficiency by continuing to reduce the cost of our flagship products and transforming our manufacturing footprint. In 2025, we reduced the cost of our primary products through manufacturing best practices including lean, kaizen, and operational excellence. The benefits of this work are ongoing and will provide further cost savings in 2026. In addition, this year we will embark on the second phase of our manufacturing transformation by evaluating alternative manufacturing sites. To build capacity for future growth, it's critical that we contemplate supply chain resiliency, customer proximity and low-cost manufacturing. As such, we are close to selecting a low-cost location outside of the United States to balance production with our core manufacturing operations in the San Francisco Bay Area.

Wastewater Reuse: In our Wastewater business, 2025 was a year of many accomplishments as we build this business to serve a market that is large, fragmented, and rapidly growing. We expect the Wastewater business to capture this market growth by investing in product innovation and organizational strength.

In total, GWI expects water reuse capex to increase 18% annually through the end of the decade driven by strong benefits to the customer. When properly valuing the full lifecycle costs of water extraction, purification, and transfer to the end user, wastewater reuse delivers the lowest total economics. Globally, industry generates nearly one billion cubic meters per day ("cmd") of wastewater every day, virtually all of which is untreated and discarded into the environment. Re-purifying this water at the point of use avoids the most expensive parts of water supply: permitting, new reservoir construction and long-distance conveyance. As a result, the World Bank estimates the cost of reuse to be $0.30-0.75 per cmd versus $0.50-1.90 for desalination. Governments have embraced this solution and are enacting regulations designed to promote wastewater reuse and eliminate the longstanding market failure of underpriced freshwater.

Unlike desalination, Wastewater treatment is a broad market that varies considerably in feedwater type, purification technology, infrastructure and overall system design. Our product portfolio must address the full range from ultra-high pressure systems for zero liquid discharge down to lower-pressure brackish water applications, as well as everything in between. We are also innovating novel designs to allow PXs to process difficult and non-standard types of feedwater. Each of these products, once developed and deployed with an inaugural customer, becomes a new global market to pursue. We expect new product development to be robust in 2026 and anticipate announcing new reference cases during the year. Our recently published reference case on mine cooling demonstrates the PX's impact in a growing range of applications.

We have built an outstanding team with global coverage and sector expertise. Our small team in 2024, has grown to nearly 20 people today, and we expect it will grow further in 2026. We now have teams with local knowledge dedicated to North America, South America, Europe, South Asia, China, and the Middle East. The team is also complete with sales, management and technical service infrastructure. As a result, we expect future personnel growth to be strategic and incremental as we manage this team for high performance.

CO_2 Business

Our Q3 2025 shareholder letter noted that customer conversations following our summer testing season would inform our outlook for 2026 and beyond. We also pledged our continued focus on prudent capital allocation.

As customer conversations have unfolded throughout the first quarter, it has now become clear that the outlook for the PX G in the retail grocery market has deteriorated further. While key OEM and end-user customers recognized the value proposition of the product, widespread adoption of new technology is not a strategic priority in the near term.

Ultimately, due to lower customer support than we had anticipated, we now no longer believe that continued investment in the business is warranted, and we are unwinding the effort. Select engineering resources will be reallocated to our Water segment, and the balance represents ~$7 million in annual savings. We also expect to record a charge of $4.5 million to $5.5 million in our Q1 financials from the restructuring, inventory and goodwill adjustments.

Going forward, while we would always entertain new applications of our CO_2 technology in more attractive end markets, any such effort would come with strict capital allocation hurdles to any material investment.

2026 Outlook

Our desalination revenue guidance of $105 to $125 million reflects the following two considerations:

- First, this level of revenue is lower than our expectations heading into Q4 last year. Starting in late 2025 and into early 2026 we are seeing a heightened level of customer project slippage. The combination of unprecedented project scale, construction demand and project specific issues has caused several notable delays. Individual projects often represent $10 to $20 million of revenue for ERII. As such, delays in underlying timelines of 3 projects have had a significant impact on our 2026 revenue expectations. While these handful of delays are frustrating and significant, they are still just delays—ultimate project realization is underpinned by customer activity and underlying demand trends.
- Second, a note about the guidance range, which is wider than what we typically provide. We have sized the potential for additional project timing risk over the course of 2026 at $15 to $20 million of revenue. If these projects are realized as expected in 2026, we anticipate reporting revenue at the high end of our guided range. The low end of guidance reflects the scenario where we are fully impacted by this heightened level of project delays.

We maintain a long-term project pipeline of $550 million, which we expect to realize over the next several years. As such, we look forward confidently to growth in 2027 and beyond.

In Wastewater, we will continue building the sales team and our commercial presence, while creating new products for new use cases – particularly in low pressure applications. We expect revenue to increase to $10-15 million versus $7.9 million in 2025. We expect quarterly revenue to increase throughout the year as part of the natural ramping process and as our team seasons.

Overall, we expect the quarterly cadence of total company revenue for the year to be similar to 2025. For Q1 total revenue is expected to be on par or slightly above Q1 2025.

To improve transparency and consistency with how the investment community evaluates our business, we are revising our guidance metrics. First, we are providing direct guidance on Adjusted EBITDA and Adjusted EPS to reflect our primary "bottom line" measures.

We expect Adjusted EBITDA of $32 to $44 million driven by two factors. As noted above, our manufacturing optimization will continue in 2026, and we expect the cost of our flagship products to fall again, driving year-over-year gross margin improvement. We also expect operating expenses to decrease year-over-year driven by the closure of our CO_2 retail grocery business and ongoing operating efficiencies, partially offset by continued investment in our Wastewater business. We have taken the same approach to guiding Adjusted EBITDA as we had done with Desalination revenue, namely that we believe we can still meet the lower half of the range under a scenario of maximum potential project delays.

We expect Adjusted EPS of $0.50 to $0.70. This assumes no impact from potential share repurchases in 2026, which we estimate would add $0.02 to Adjusted EPS if we utilized the remainder of our outstanding authorization as of December 31, 2025 of $19.4 million.

As of today, we expect to incur special charges related to the wind down of our CO_2 retail grocery business, including severance, inventory obsolescence, goodwill impairment, and other one-time costs totaling approximately $4.5 million to $5.5 million. This amount includes approximately $1.0 million to 2.0 million of cash expenses in 2026. We expect to exclude these costs from Adjusted EBITDA to allow investors to assess the performance of our underlying business.

We expect capital expenditures of $3.0 million to $6.0 million, versus $1.3 million in 2025. Our anticipated capex range for the current year exceeds what we consider to be normalized annual maintenance capex amounts as we embark on long-term plans to expand our manufacturing footprint globally.

The table below summarizes our 2026 guidance.

	Low	High
	(in millions except per share amounts)	
Revenue:		
Desalination	$ 105.0	$ 125.0
Wastewater	10.0	15.0
Total Revenue	$ 115.0	$ 140.0
Adjusted EBITDA	$ 32.0	$ 44.0
Adjusted EPS	$ 0.50	$ 0.70
Capital Expenditures	$ 3.0	$ 6.0

Financial Highlights

	Quarter-to-Date			Year to Date		
	Q4'2025	**Q4'2024**	**vs. Q4'2024**	**2025**	**2024**	**2025 vs. 2024**
	(In millions, except net income per share, percentages and basis points)					
Revenue	$66.9	$67.1	down %	$135.0	$144.9	down 7%
Gross margin	67.2%	70.2%	down 300 bps	65.1%	66.9%	down 180 bps
Operating margin	46.8%	38.2%	up 860 bps	17.7%	13.6%	up 410 bps
Net income	$26.9	$23.5	up 15%	$23.0	$23.1	down 0%
Net income per share	$0.50	$0.41	up $0.09	$0.42	$0.40	up $0.02
Effective tax rate				16.8%	10.4%	
Cash provided by operations	$7.1	$9.0		$18.8	$20.5	

Non-GAAP Financial Highlights [1]

	Quarter-to-Date			Year to Date		
	Q4'2025	**Q4'2024**	**vs. Q4'2024**	**2025**	**2024**	**2025 vs. 2024**
	(In millions, except adjusted net income per share, percentages and basis points)					
Adjusted operating margin	48.9%	45.2%	up 370 bps	23.9%	26.2%	down 230 bps
Adjusted net income	$28.2	$28.3	down 0%	$31.2	$40.7	down 23%
Adjusted net income per share	$0.53	$0.50	up $0.03	$0.58	$0.71	down $0.13
Adjusted EBITDA	$33.6	$31.3		$36.0	$42.0	
Free cash flow	$6.4	$8.9		$17.4	$19.2	

(1) Refer to the sections "Use of Non-GAAP Financial Measures" and "Reconciliation of Non-GAAP Financial Measures" for definitions of our non-GAAP financial measures and reconciliations of GAAP to non-GAAP amounts, respectively.

Forward-Looking Statements

Certain matters discussed in this document and on the conference call are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including our belief that our China tariff offset plan can will allow us to generate revenue from the country at any China-U.S. tariff level; our belief we are on track to deliver a level of Opex in 2025 that is $4 million less than originally expected; our anticipation for strong growth in that the Middle East and North Africa for many years; our belief that Lithium extraction will be another growth driver of our Wastewater business; our belief that the market for low-pressure Wastewater uses is ultimately much larger than high-pressure Wastewater uses; our belief in the continued growth of the Wastewater market; and our belief in our ability to meet our 2025 guidance. These forward-looking statements are based on information currently available to the Company and on management's beliefs, assumptions, estimates, or projections and are not guarantees of future events or results. Potential risks and uncertainties include risks relating to the future demand for the Company's products, risks relating to performance by our customers and third-party partners, risks relating to the timing of revenue, and any other factors that may have been discussed herein regarding the risks and uncertainties of the Company's business, and the risks discussed under "Risk Factors" in the Company's Form 10-K filed with the U.S. Securities and Exchange Commission ("SEC") for the year ended December 31, 2024, as well as other reports filed by the Company with the SEC from time to time. Because such forward-looking statements involve risks and uncertainties, the Company's actual results may differ materially from the predictions in these forward-looking statements. All forward-looking statements are made as of today, and the Company assumes no obligation to update such statements.

Use of Non-GAAP Financial Measures

This document includes certain non-GAAP financial measures, including adjusted operating margin, adjusted net income, adjusted net income per share, adjusted EBITDA and free cash flow. Generally, a non-GAAP financial measure is a numerical measure of a company's performance, financial position, or cash flows that either exclude or include amounts that are not normally excluded or included in the most directly comparable measure calculated and presented in accordance with generally accepted accounting principles in the United States of America, or GAAP. These non-GAAP financial measures do not reflect a comprehensive system of accounting, differ from GAAP measures with the same captions, and may differ from non-GAAP financial measures with the same or similar captions that are used by other companies. As such, these non-GAAP measures should be considered as a supplement to, and not as a substitute for, or superior to, financial measures calculated in accordance with GAAP. The Company uses these non-GAAP financial measures to analyze its operating performance and future prospects, develop internal budgets and financial goals, and to facilitate period-to-period comparisons. The Company believes these non-GAAP financial measures reflect an additional way of viewing aspects of its operations that, when viewed with its GAAP results, provide a more complete understanding of factors and trends affecting its business.

Notes to the Financial Results

- *Adjusted operating margin* is a non-GAAP financial measure that the Company defines as income from operations which excludes i) stock-based compensation; ii) executive transition costs, such as executive search costs, retention costs, one-time severance costs and one-time corporate growth strategy costs; iii) restructuring charges, and (iv) impairment of long-lived assets, divided by revenues.
- *Adjusted net income* is a non-GAAP financial measure that the Company defines as net income which excludes i) stock-based compensation; ii) executive transition costs; iii) restructuring charges; iv) impairment of long-lived assets; and v) the applicable tax effect of the excluded items including the stock-based compensation discrete tax item.
- *Adjusted net income per share* is a non-GAAP financial measure that the Company defines as net income, which excludes i) stock-based compensation; ii) executive transition costs; iii) restructuring charges; iv) impairment of long-lived assets; and v) the applicable tax effect of the excluded items including the stock-based compensation discrete tax item, divided by basic shares outstanding.
- *Adjusted EBITDA* is a non-GAAP financial measure that the Company defines as net income which excludes i) depreciation and amortization; ii) stock-based compensation; iii) executive transition costs; iv) restructuring charges; v) impairment of long-lived assets; vi) other income, net, such as interest income and other non-operating income (expense), net; and vii) provision for income taxes.
- *Free cash flow* is a non-GAAP financial measure that the Company defines as net cash provided by operating activities less capital expenditures.

Disclosure Information

Energy Recovery uses the investor relations section on its website as means of complying with its disclosure obligations under Regulation FD. Accordingly, investors should monitor Energy Recovery's investor relations website in addition to following Energy Recovery's press releases, SEC filings, and public conference calls and webcasts.

ENERGY RECOVERY, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	December 31, 2025	December 31, 2024
	(In thousands)	
ASSETS		
Cash, cash equivalents and investments	$ 83,283	$ 99,851
Accounts receivable and contract assets	78,286	66,842
Inventories, net	24,260	24,906
Prepaid expenses and other assets	3,416	3,889
Property, equipment and operating leases	20,635	25,119
Goodwill	12,790	12,790
Deferred tax assets and other assets	8,844	9,395
TOTAL ASSETS	**$ 231,514**	**$ 242,792**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Accounts payable, accrued expenses, and other liabilities, current	$ 13,784	$ 20,837
Contract liabilities and other liabilities, non-current	2,109	628
Lease liabilities	9,429	11,317
Total liabilities	**25,322**	**32,782**
Stockholders' equity	**206,192**	**210,010**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 231,514**	**$ 242,792**

ENERGY RECOVERY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended December 31,		Years Ended December 31,	
	2025	**2024**	**2025**	**2024**
		(In thousands, except per share data)		
Revenue	**$ 66,871**	**$ 67,075**	**$ 134,987**	**$ 144,948**
Cost of revenue	21,910	19,955	47,056	48,015
Gross profit	**44,961**	**47,120**	**87,931**	**96,933**
Operating expenses				
General and administrative	6,012	8,303	29,769	33,074
Sales and marketing	4,946	6,754	20,926	25,423
Research and development	2,914	3,972	13,034	16,236
Restructuring charges	(226)	2,476	313	2,476
Total operating expenses	**13,646**	**21,505**	**64,042**	**77,209**
Income from operations	**31,315**	**25,615**	**23,889**	**19,724**
Other income, net	821	1,240	3,706	6,011
Income before income taxes	**32,136**	**26,855**	**27,595**	**25,735**
Provision for income taxes	5,222	3,384	4,633	2,685
Net income	**$ 26,914**	**$ 23,471**	**$ 22,962**	**$ 23,050**
Net income per share				
Basic	$ 0.51	$ 0.41	$ 0.43	$ 0.40
Diluted	$ 0.50	$ 0.41	$ 0.42	$ 0.40
Number of shares used in per share calculations				
Basic	52,915	56,629	53,802	57,213
Diluted	53,360	57,236	54,158	57,822

ENERGY RECOVERY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Years Ended December 31,	
	2025	**2024**
	(In thousands)	
Cash flows from operating activities:		
Net income	$ 22,962	$ 23,050
Non-cash adjustments	11,945	16,214
Net cash used in operating assets and liabilities	(16,137)	(18,742)
Net cash provided by operating activities	**18,770**	**20,522**
Cash flows from investing activities:		
Net investment in marketable securities	35,305	(14,489)
Capital expenditures	(1,330)	(1,298)
Proceeds from sales of fixed assets	10	133
Net cash provided by (used in) investing activities	**33,985**	**(15,654)**
Cash flows from financing activities:		
Net proceeds from issuance of common stock	1,796	7,100
Repurchase of common stock and payment of excise tax	(36,330)	(50,384)
Net cash used in financing activities	**(34,534)**	**(43,284)**
Effect of exchange rate differences	98	(52)
Net change in cash, cash equivalents and restricted cash	**$ 18,319**	**$ (38,468)**
Cash, cash equivalents and restricted cash, end of year	**$ 48,076**	**$ 29,757**

ENERGY RECOVERY, INC.
RECONCILIATION OF NON-GAAP FINANCIAL MEASURES [1]
(Unaudited)

This document includes certain non-GAAP financial information because we plan and manage our business using such information. The following table reconciles the GAAP financial information to the non-GAAP financial information.

	Quarter-to-Date		Year-to-Date	
	Q4'2025	Q4'2024	2025	2024
	(In millions, except shares, per share and percentages)			
Operating margin	**46.8 %**	**38.2 %**	**17.7 %**	**13.6 %**
Stock-based compensation	2.4	2.7	5.7	7.1
Executive transition costs	—	0.7	—	3.7
Restructuring charges	(0.3)	3.7	0.2	1.7
Impairment of long-lived assets	—	—	0.3	—
Adjusted operating margin	**48.9 %**	**45.2 %**	**23.9 %**	**26.2 %**
Net income	**$ 26.9**	**$ 23.5**	**$ 23.0**	**$ 23.1**
Stock-based compensation	1.6	1.8	7.7	10.3
Executive transition costs [2]	—	0.4	—	4.8
Restructuring charges [2]	(0.2)	2.2	0.3	2.2
Impairment of long-lived assets [2]	—	—	0.3	—
Stock-based compensation discrete tax item	(0.2)	0.4	(0.1)	0.3
Adjusted net income	**$ 28.2**	**$ 28.3**	**$ 31.2**	**$ 40.7**
Net income per share	**$ 0.51**	**$ 0.41**	**$ 0.43**	**$ 0.40**
Adjustments to net income per share [3]	0.02	0.09	0.15	0.31
Adjusted net income per share	**$ 0.53**	**$ 0.50**	**$ 0.58**	**$ 0.71**
Net income	**$ 26.9**	**$ 23.5**	**$ 23.0**	**$ 23.1**
Stock-based compensation	1.6	1.8	7.7	10.3
Depreciation and amortization	0.9	1.0	3.8	4.0
Executive transition costs	—	0.4	—	5.4
Restructuring charges	(0.2)	2.5	0.3	2.5
Impairment of long-lived assets	—	—	0.4	—
Other income, net	(0.8)	(1.2)	(3.7)	(6.0)
Provision for income taxes	5.2	3.4	4.6	2.7
Adjusted EBITDA	**$ 33.6**	**$ 31.3**	**$ 36.0**	**$ 42.0**
Free cash flow				
Net cash provided by operating activities	$ 7.1	$ 9.0	$ 18.8	$ 20.5
Capital expenditures	(0.7)	(0.1)	(1.3)	(1.3)
Free cash flow	**$ 6.4**	**$ 8.9**	**$ 17.4**	**$ 19.2**

(1) Amounts may not total due to rounding.
(2) Amounts presented are net of tax.
(3) Refer to the sections “Use of Non-GAAP Financial Measures” for description of items included in adjustments.