# ERII Q3 2025 Letter to Shareholders

Fellow Shareholders,

- We are pleased with another solid quarter of execution, delivering results in-line with expectations:
  - Megaproject shipments ticked up sequentially in the quarter as expected.
  - Wastewater revenue continued to rebound.

- We are reiterating our full year guidance for Desalination and Wastewater and are on track for a large Q4, which is expected to represent ~55% of our annual revenue.

- The $CO_2$ business completed a successful summer testing season and customers continue to be measured and methodical with commercial adoption.

- We remain focused on cost control and are once again improving our Opex guidance to $67 to $70 million from $69 to $72 million, resulting in meaningful outperformance compared with our original 2025 guidance of $70 to $74 million.

- We successfully delivered product to a Chinese customer via our China tariff offset plan, confirming our ability to generate revenue from the country under any China-U.S. tariff regime.

- We continued to repurchase shares in the quarter, and have now repurchased $82 million of stock at an average price of $14.70 in the last 12 months. We have $22.8 million remaining under our authorized plan.

## Message from the CEO

So far this year I am pleased with our continued focus and execution on the things we can control. Heading into our biggest quarter of the year, I think the team has done an excellent job of setting the company up for the future.

Top on the list is cost control. We came into 2025 having already executed a restructuring and were quickly faced with additional revenue and profit headwinds from China tariffs. I challenged the team to get even more efficient, and now we're on track to deliver a level of Opex in 2025 that is $4 million less than originally expected. This level of cost control sets us up nicely to drive profitable growth in future years, which will come through in expanding EBITDA margins.

Next, we cannot underestimate the importance of tariff mitigation. Without an international manufacturing footprint we were at the mercy of newly implemented tariff rates in our China Wastewater business. In just 6 months, we have fully implemented a creative solution to limit our exposure to China-U.S. tariffs. That is on top of the duty drawback and Foreign Trade Zone ("FTZ") work to help shield us on the cost side. We are now more resilient to global shocks – and we didn't have to spend significant capital to do so.

We have also set up our Wastewater business for growth through organizational changes and accelerated hiring. Even though this year's results will be below original expectations, we remain focused on the long-term and are building out the team accordingly.

## Q3 results

Total revenue of $32.0 million in Q3 2025 was in-line with our expectations of sequential growth versus Q2 2025 revenue of $28.1 million. Gross margin in the third quarter of 64% was in-line with the prior quarter and lower than the same quarter last year by 0.9%. The margin in the quarter was impacted by product mix and tariffs. Our Q400 margin continues to increase on a year-over-year basis.

Operating expenses for the third quarter totaled $16.9 million compared with $18.1 million in the same quarter of 2024. The reduction comes from our cost improvement efforts as well as from one-time costs in the same period last year.

Net income for the quarter totaled $3.9 million and Adjusted EBITDA[(1)] for the quarter totaled $6.8 million.

Our net income per share of $0.07 and our adjusted net income per share[(1)] of $0.12 for the third quarter benefited somewhat from a decreased share count.

We repurchased $10.6 million of the Company's shares in the quarter at an average price of $13.61 per share.

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(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

Our Water segment had a solid quarter of shipments and contract bookings, putting the business on-track to achieve our full year guidance. Revenue of $31.9 million decreased from $38.3 million last year due to project timing, but was in-line with our expectations for modest sequential growth over Q2'25. Gross margin of 64.5% decreased slightly from 65.2% last year due to a lower level of revenue and tariff impact, offset by manufacturing improvements. Total recognized revenue this year plus backlog is equal to $134 million, or 90% of our full-year estimated Water revenue (as compared to 94% this time last year).

Near-term in our Desalination business, demand is being driven in large part by customers in the Middle East and North Africa where fresh water is scarce, and where strong economic trends support desalination plant construction. These regions have remained economically resilient in 2025 due to broad economic growth. In addition, the region is seeing increasing per capita water consumption driven by increases in agriculture, industrialization and overall standard of living. As a result, we expect robust plant construction and contracting activity to continue for many years.

These trends helped drive new project wins in our Desalination business this quarter, including:

- Two large projects in Saudi Arabia totaling >700,000 $m^3/d$
- An 80,000 $m^3/d$ project in Egypt
- A 60,000 $m^3/d$ project in Algeria

Our Wastewater business also had a solid third quarter on several fronts. We secured an important customer in Latin America for a lithium extraction project. This win follows our initial reference case on this application earlier in the year, demonstrating the importance of establishing initial reference cases as a beachhead for new markets. Long-term, we see positive trends in Lithium extraction as yet another growth driver of our Wastewater business.

We also had an important win for our low-pressure PX. We installed this product in a large tertiary water treatment and reuse plant in China, and subsequent testing validated strong energy savings from our product. While most of our current Wastewater business is in high-pressure applications, we believe the market for low-pressure uses is ultimately much larger. Following this successful validation, we will continue to develop low-pressure products to capture this important source of revenue.

In China, we demonstrated our ability to execute and serve customers despite the trade disruption, successfully delivering product to a Chinese customer using our foreign manufacturing plan. We now feel confident in our ability to support these customers under any China-U.S. tariff regime and look forward to capturing strong growth in that market for many years to come.

Importantly, the ability of our Wastewater business to attract and retain talent has us poised for future growth. During the quarter, we added three more people to the team, and have now nearly doubled the size of this group (to 17) versus the same time a year ago. We look forward to translating this aggressive hiring into revenue growth.

## $CO_2$ Business

Our $CO_2$ business recently completed a successful summer season of product testing. To frame these results, we tested dozens of PX Gs in seven countries for an aggregate total of over 100,000 hours. In summary, the PX G allows customers to achieve up to 15% annualized energy savings, a 40-60% reduction in water use, and year-round efficiency gains. Importantly, the PX G allows a refrigeration system to withstand higher temperature spikes, enabling greater system stability during heat waves, which reduces the costs both of system servicing and costly food spoilage events. We published our findings last week in a white paper, which we believe will help drive broader awareness about the benefits of this product.

With the summer testing season over, conversations have begun in earnest around commercialization timelines with key customers. There is continued interest in the PX G, but customers are indicating that scaled rollouts will take more time than previously hoped. We expect a more measured adoption curve of the PX G and thus expect a more muted uptake in 2026 than previously expected. We plan to provide updated guidance in conjunction with our Q4 2025 shareholder letter, after conversations with customers have further evolved. We recognize that lower adoption rates can have a corresponding impact on the return profile of the business, and so we remain focused on prudent allocation of capital as this business develops.

## 2025 Outlook

We are pleased with our sales and operating execution in the third quarter and are preparing for a record fourth quarter to deliver on the guidance we outline below.

Our Desalination business has remained steady this year and is on-track to land within our original guidance range of $138 million to $145 million. As usual, we are monitoring projects for potential delays into 2026. This year, we're tracking two at-risk projects, which combined represent less than 10% of our total annual revenue. This is a similar at-risk percentage we saw for a single project in Q4 last year. These projects face potential customer-driven delays, and we would not be surprised if one or both slip into 2026. As a reminder, these projects are signed and in our backlog, and that our definition of "at risk" relates only to exact shipment timing. We are confident in our ability to deliver internally should these projects remain on track.

Our Wastewater business has rebounded from the effects of tariffs between the US and China and is on track to meet our guidance of $8 million to $11 million this year. Our internal tariff mitigation strategies (including international relocation of certain manufacturing operations and Duty Drawback programs) are now fully established and provide strong benefits that offset the tariff impact on both us and our customers. The net impact of tariffs will still be felt by our Wastewater business this year and we expect to be at the low end of our guided revenue range. Given global water scarcity, our confidence in the secular growth of this market has never been greater, and we are expanding our team at a strong pace as we look toward 2026.

Our $CO_2$ business has completed a successful summer testing season. We recently released a white paper on the PX G's performance during this time and are pleased not only with its reliability, but also with the savings the product can provide its users. Given the rigor of customer evaluation, commercialization is developing more slowly than we anticipated for this business, and we now expect to come in below the low end of our guidance range of $1 million to $3 million.

We are maintaining our gross margin guidance of 66% to 68%. While we have implemented effective tariff offset strategies, the benefit of these programs does involve a timing delay. As such, the current environment makes it difficult to achieve the high end of our guided range. Nonetheless, we committed to offsetting any of this impact with dollar-for-dollar decreases in operating expenses and are delivering on that promise.

We are reducing our guidance for operating expenses by a further $2 million to a range of $67 million to $70 million (which includes $0.9 million of impairment and restructuring charges). As the year has progressed, we have continued to find innovative ways to reduce cost and improve efficiency, while reinvesting much of those savings into our growing Wastewater business.

Our stock-based compensation and depreciation and amortization expenses, key adjustments to calculate our Adjusted EBITDA, are expected to align with guidance as supported by year-to-date expense. We are decreasing our full year capex expectations to $1 million to $3 million (a decrease of $1.5 million at the midpoint), due to a reduced need for capital equipment growth.

The table below summarizes our updated 2025 guidance.

| | Low | High |
|---|---|---|
| | *(in millions, except percentages)* | |
| **Revenue:** | | |
| Desalination | $ 138.0 | $ 145.0 |
| Wastewater | 8.0 | 11.0 |
| $CO_2$ | 1.0 | 3.0 |
| **Total Revenue** | $ 147.0 | $ 159.0 |
| Gross Margin | 66.0 % | 68.0 % |
| Operating Expenses | $ 67.0 | $ 70.0 |
| Stock-based Compensation | $ 8.0 | $ 10.0 |
| Depreciation and Amortization | $ 3.5 | $ 4.5 |
| Capital Expenditures | $ 1.0 | $ 3.0 |

## Financial Highlights

| | Quarter-to-Date | | | Year to Date | | |
|---|---|---|---|---|---|---|
| | Q3'2025 | Q3'2024 | vs. Q3'2024 | 2025 | 2024 | 2025 vs. 2024 |
| | *(In millions, except net income (loss) per share, percentages and basis points)* | | | | | |
| Revenue | $32.0 | $38.6 | down 17% | $68.1 | $77.9 | down 13% |
| Gross margin | 64.2% | 65.1% | down 90 bps | 63.1% | 64.0% | down 90 bps |
| Operating margin | 11.4% | 18.3% | down 690 bps | (10.9%) | (7.6%) | down 330 bps |
| Net income (loss) | $3.9 | $8.5 | down 54% | ($4.0) | ($0.4) | NM |
| Net income (loss) per share | $0.07 | $0.15 | down $0.08 | ($0.07) | ($0.01) | down $0.06 |
| Effective tax rate | | | | 13.0% | 62.4% | |
| Cash provided by (used for) operations | ($3.1) | ($3.0) | | $11.7 | $11.6 | |

## Non-GAAP Financial Highlights [(1)]

| | Quarter-to-Date | | | Year to Date | | |
|---|---|---|---|---|---|---|
| | Q3'2025 | Q3'2024 | vs. Q3'2024 | 2025 | 2024 | 2025 vs. 2024 |
| | *(In millions, except adjusted net income per share, percentages and basis points)* | | | | | |
| Adjusted operating margin | 18.3% | 27.5% | down 920 bps | (0.6%) | 9.7% | NM |
| Adjusted net income | $6.3 | $12.0 | down 47% | $3.0 | $12.4 | down 75% |
| Adjusted net income per share | $0.12 | $0.21 | down $0.09 | $0.06 | $0.22 | down $0.16 |
| Adjusted EBITDA | $6.8 | $11.6 | | $2.4 | $10.6 | |
| Free cash flow | ($3.5) | ($3.2) | | $11.0 | $10.4 | |

(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.

NM Not Meaningful

## 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 (loss) 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 (loss) 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 (loss), 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 (loss) 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 (benefit from) income taxes.
- *Free cash flow* is a non-GAAP financial measure that the Company defines as net cash provided by (used in) 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)*

| | September 30, 2025 | December 31, 2024 |
|---|---|---|
| | *(In thousands)* | |
| **ASSETS** | | |
| Cash, cash equivalents and investments | $ 79,937 | $ 99,851 |
| Accounts receivable and contract assets | 46,809 | 66,842 |
| Inventories, net | 33,566 | 24,906 |
| Prepaid expenses and other assets | 4,865 | 3,889 |
| Property, equipment and operating leases | 21,539 | 25,119 |
| Goodwill | 12,790 | 12,790 |
| Deferred tax assets and other assets | 10,139 | 9,395 |
| **TOTAL ASSETS** | **$ 209,645** | **$ 242,792** |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| **Liabilities** | | |
| Accounts payable, accrued expenses, and other liabilities, current | $ 16,812 | $ 20,837 |
| Contract liabilities and other liabilities, non-current | 2,002 | 628 |
| Lease liabilities | 9,999 | 11,317 |
| **Total liabilities** | **28,813** | **32,782** |
| **Stockholders' equity** | **180,832** | **210,010** |
| **TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY** | **$ 209,645** | **$ 242,792** |

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2025** | **2024** | **2025** | **2024** |
| | *(In thousands, except per share data)* | | | |
| **Revenue** | **$ 32,000** | **$ 38,584** | **$ 68,116** | **$ 77,873** |
| Cost of revenue | 11,442 | 13,472 | 25,146 | 28,060 |
| **Gross profit** | **20,558** | **25,112** | **42,970** | **49,813** |
| **Operating expenses** | | | | |
| General and administrative | 7,514 | 7,673 | 23,757 | 24,771 |
| Sales and marketing | 5,714 | 6,413 | 15,980 | 18,669 |
| Research and development | 3,668 | 3,969 | 10,120 | 12,264 |
| Restructuring charges | — | — | 539 | — |
| **Total operating expenses** | **16,896** | **18,055** | **50,396** | **55,704** |
| **Income (loss) from operations** | **3,662** | **7,057** | **(7,426)** | **(5,891)** |
| Other income, net | 892 | 1,768 | 2,885 | 4,771 |
| **Income (loss) before income taxes** | **4,554** | **8,825** | **(4,541)** | **(1,120)** |
| Provision for (benefit from) income taxes | 680 | 344 | (589) | (699) |
| **Net income (loss)** | **$ 3,874** | **$ 8,481** | **$ (3,952)** | **$ (421)** |
| **Net income (loss) per share** | | | | |
| Basic | $ 0.07 | $ 0.15 | $ (0.07) | $ (0.01) |
| Diluted | $ 0.07 | $ 0.15 | $ (0.07) | $ (0.01) |
| **Number of shares used in per share calculations** | | | | |
| Basic | 53,162 | 57,756 | 54,101 | 57,409 |
| Diluted | 53,466 | 58,290 | 54,101 | 57,409 |

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

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2025 | 2024 |
| | *(In thousands)* | |
| **Cash flows from operating activities:** | | |
| Net loss | $ (3,952) | $ (421) |
| Non-cash adjustments | 10,181 | 11,432 |
| Net cash provided by operating assets and liabilities | 5,464 | 556 |
| **Net cash provided by operating activities** | **11,693** | **11,567** |
| **Cash flows from investing activities:** | | |
| Net investment in marketable securities | 37,670 | (21,067) |
| Capital expenditures | (668) | (1,194) |
| Proceeds from sales of fixed assets | 10 | 90 |
| **Net cash provided by (used in) investing activities** | **37,012** | **(22,171)** |
| **Cash flows from financing activities:** | | |
| Net proceeds from issuance of common stock | 1,364 | 5,795 |
| Repurchase of common stock and payment of excise tax | (32,781) | — |
| **Net cash (used in) provided by financing activities** | **(31,417)** | **5,795** |
| Effect of exchange rate differences | 58 | (23) |
| **Net change in cash, cash equivalents and restricted cash** | **$ 17,346** | **$ (4,832)** |
| **Cash, cash equivalents and restricted cash, end of period** | **$ 47,103** | **$ 63,393** |

## 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 | |
|---|---|---|---|---|
| | Q3'2025 | Q3'2024 | Q3'2025 | Q3'2024 |
| | *(In millions, except shares, per share and percentages)* | | | |
| **Operating margin** | **11.4 %** | **18.3 %** | **(10.9)%** | **(7.6)%** |
| Stock-based compensation | 6.9 | 6.3 | 9.0 | 10.9 |
| Executive transition costs | — | 2.9 | — | 6.4 |
| Restructuring charges | — | — | 0.8 | — |
| Impairment of long-lived assets | — | — | 0.5 | — |
| **Adjusted operating margin** | **18.3 %** | **27.5 %** | **(0.6)%** | **9.7 %** |
| | | | | |
| **Net income (loss)** | **$ 3.9** | **$ 8.5** | **$ (4.0)** | **$ (0.4)** |
| Stock-based compensation | 2.2 | 2.4 | 6.1 | 8.5 |
| Executive transition costs [2] | — | 1.0 | — | 4.4 |
| Restructuring charges [2] | — | — | 0.5 | — |
| Impairment of long-lived assets [2] | — | — | 0.3 | — |
| Stock-based compensation discrete tax item | 0.3 | 0.1 | 0.1 | (0.1) |
| **Adjusted net income** | **$ 6.3** | **$ 12.0** | **$ 3.0** | **$ 12.4** |
| | | | | |
| **Net income (loss) per share** | **$ 0.07** | **$ 0.15** | **$ (0.07)** | **$ (0.01)** |
| Adjustments to net income (loss) per share [3] | 0.05 | 0.06 | 0.13 | 0.23 |
| **Adjusted net income per share** | **$ 0.12** | **$ 0.21** | **$ 0.06** | **$ 0.22** |
| | | | | |
| **Net income (loss)** | **$ 3.9** | **$ 8.5** | **$ (4.0)** | **$ (0.4)** |
| Stock-based compensation | 2.2 | 2.4 | 6.1 | 8.5 |
| Depreciation and amortization | 0.9 | 1.0 | 2.8 | 3.1 |
| Executive transition costs | — | 1.1 | — | 5.0 |
| Restructuring charges | — | — | 0.5 | — |
| Impairment of long-lived assets | — | — | 0.4 | — |
| Other income, net | (0.9) | (1.8) | (2.9) | (4.8) |
| Provision for (benefit from) income taxes | 0.7 | 0.3 | (0.6) | (0.7) |
| **Adjusted EBITDA** | **$ 6.8** | **$ 11.6** | **$ 2.4** | **$ 10.6** |
| | | | | |
| **Free cash flow** | | | | |
| Net cash provided by (used in) operating activities | $ (3.1) | $ (3.0) | $ 11.7 | $ 11.6 |
| Capital expenditures | (0.3) | (0.2) | (0.7) | (1.2) |
| **Free cash flow** | **$ (3.5)** | **$ (3.2)** | **$ 11.0** | **$ 10.4** |

(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.