



ERII Q1 2026 Letter to Shareholders

Message from the CEO

We are excited to report a significant product milestone: the PX Q650, launched in March, has already received its first commercial order and is being actively integrated into new designs by other large customers. Compared to our PX Q400, itself the prior market leader, the Q650 delivers the lowest specific energy consumption of any energy recovery device on the market, while maintaining the same proven 30-year design life and industry-leading uptime. This commercial traction is a testament to the strength of our innovation pipeline and the trust our customers place in us.

Today, we are announcing two leadership team updates, the first of which relates to me. I recently informed the Board of my intention to retire in the future, and a formal search for my successor is underway. Until a new CEO is named, I will remain fully engaged and committed to my current role. We have tenured and experienced professionals at Energy Recovery and together I am confident we will ensure a smooth transition.

We are also announcing that Mike Mancini has resigned as CFO to pursue a new opportunity. We have appointed Aidan Ryan as Interim CFO. Aidan joined Energy Recovery in 2024 as VP of Finance, led the build out of the current team, and will provide continuity following Mike's departure. We thank Mike for his service to the company and wish him well in his future endeavors.

With significant business tied to the Middle East, the war in Iran severely limits our near-term visibility, and as such, we are temporarily withdrawing our 2026 guidance until further notice. Above all else, our priority remains the safety and well-being of our employees in the region, and we are actively supporting our customers as they navigate this uncertainty. We believe this is only a temporary headwind and have experience growing through many geopolitical challenges during our 30-year history as a company. With 8-11% expected annual growth in our end markets of desalination and water reuse over the next five years, we will remain focused on strengthening our already great business for the long-term. We will keep our heads down and focus on product innovation, customer experience, fiscal discipline, and creative solutions to our challenges.

I look forward to speaking with many of you over the next several months and thank you for your continued support!

Business Highlights

- Q1 revenue was in-line with our expectations, coming in slightly above Q1 last year
 - Revenue of \$9.7 million was driven by strong demand in our OEM and Aftermarket channels.
 - As discussed below, reported gross margin of 27.8% was artificially depressed by restructuring charges associated with the closure of our CO₂ business. We were also impacted by tariffs, given the delayed timing of duty drawback proceeds.
 - Adjusted EBITDA of \$(7.1) million improved by \$1.7 million versus Q1 2025 driven in part by effective controls over operating expenses.
- As further detailed below, the conflict in Iran has the potential to significantly impact our 2026 results given our concentration in the region. There is limited clarity on the war's impact on individual projects but, on the whole, we believe that there will be project delays. Given the low near-term visibility, we believe it's prudent to temporarily withdraw guidance for 2026 until further notice. However, to provide investors with additional context with regard to our overall exposure to the current conflict, we note that:
 - Desalination projects in countries exposed to the war represented approximately 40% of our original 2026 desalination guidance at the midpoint.
 - We do not expect that a near-term resolution of the conflict will immediately reverse the timing impact already set in motion by the war.
 - Despite these headwinds, we expect to generate significant free cash flow in 2026.
- Following our most recent new product launch in March, we have secured our first commercial order for the PX Q650. In addition, we have been working closely with numerous large customers to integrate this product into new designs and are optimistic on commercial momentum for 2026.

- The PX Q650 delivers the highest capacity and best performance of any energy recovery device on the market, enabling the lowest specific energy consumption, fewer devices, and smaller footprint for large-scale seawater desalination projects.
 - Industry-leading warranty enhancements have doubled performance and durability coverage across Energy Recovery's high-pressure PX® Pressure Exchanger® (PX) models.
- We continued to repurchase shares in the quarter and have now bought back \$96.1 million of stock since Q4'24. We have \$8.7 million remaining under our existing authorization. In addition, today we are announcing the authorization of an additional \$25.0 million share repurchase program. With our current cash balance and expectations of future cash generation, we expect to maintain a steady pace of share repurchases.
 - As discussed in our Q4 2025 letter, we have successfully wound down our effort in the CO₂ business.
 - Restructuring activities are substantially complete and we expect minimal charges for the remainder of 2026.
 - We will be disciplined with capital deployment into new business initiatives.

Q1 Results

Total revenue in Q1 2026 grew 20% year-over-year to \$9.7 million, and was in line with our expectations, due to the strength in our OEM and Aftermarket channels. Megaproject ("MPD") revenue was minimal in the quarter, consistent with the back-end-loaded nature of our annual revenue profile.

Given the importance of Wastewater to our business and financial outlook, we have separated this business into a new reporting segment, which should allow investors to better evaluate ongoing performance. In Q1, revenue in our Wastewater segment nearly doubled versus last year, albeit a small dollar increase of \$0.3 million given the effect of Chinese New Year and the capital spending cycle in Wastewater.

Gross margin in the quarter of 27.8% was artificially depressed by two factors: CO₂ restructuring and Duty Drawback timing. A \$1.6 million restructuring charge related to the wind down of our CO₂ business reduced reported gross margin by 17% percentage points. As we have detailed in prior letters, we use the United States' Duty Drawback program to offset the impact of tariffs. However, these proceeds involve a timing delay. In the first quarter when our business naturally builds inventory, we are impacted by the cost of tariffs prior to receiving Duty Drawback proceeds later this year. Importantly, our Free Trade Zone strategy will eliminate this timing inconsistency in the future. Adjusting for these impacts, as well as normal business mix, our product margins were in-line with our expectations.

Operating expenses for the first quarter of \$17.6 million included \$1.7 million of goodwill impairment and \$1.5 million of restructuring charges, both related to our CO₂ closure. Excluding these items, our operating expenses decreased 11% year over year, reflecting the continued benefit of our leaner cost structure. As stated in our Q4'25 shareholder letter, we estimated annualized savings from our CO₂ closure of \$7 million, and we anticipate realizing the full run rate of these savings beginning in the current quarter this year.

As a result of operating a leaner cost structure, Adjusted EBITDA⁽¹⁾ of (\$7.1) million improved by \$1.7 million versus Q1 2025 and Adjusted EPS⁽¹⁾ of (\$0.11) improved \$0.02 over Q1 2025, reflecting higher adjusted net income and a lower share count.

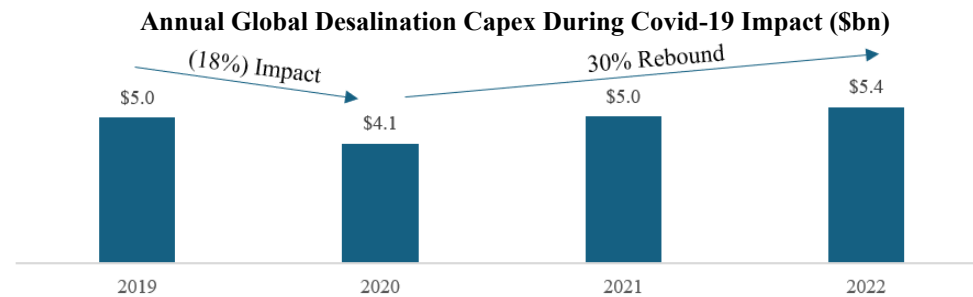
Capital expenditures of \$0.8 million primarily reflect maintenance activities. We have not yet incurred meaningful capital expenditures related to our long-term plans to expand our manufacturing footprint globally.

(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

Desalination and the Impact of War in Iran

We expect the current conflict in Iran to impact our Desalination revenue in 2026. By way of background, a large portion of global desalination spending occurs in the Middle East and North Africa. In the past 10 years, this region has comprised over one third of all new desalination capacity installed. ERII's business reflects this concentration, with approximately 45% of revenue generated from the Middle East in the past two years. In 2026, approximately 40% of our original Desalination guidance was comprised of projects in countries currently being impacted by the war in Iran.

Desalination capex has experienced long-term growth through multiple macroeconomic and geopolitical challenges (including COVID-19, the Arab Spring, and the 2008-09 Global Financial Crisis, among others). As shown below, during the COVID-19 period specifically, global desalination capex decreased approximately 18% from its peak, followed by a relatively quick 30% rebound and return to growth over the next two years. Today, the war in Iran is clearly impacting countries in the Middle East. Assuming this cycle plays out in a similar fashion, construction and procurement timelines will be impacted for several months, followed by a rebound to normalized demand. While we have received no formal delay notices on major contracted projects, the situation carries a high degree of uncertainty and severely limits our near-term visibility.



Source: GWI

We believe ERII is in a strong position, competitively and financially, to withstand volatility, and we expect to do so this year. We will continue to invest in our people, product development, and manufacturing capabilities to be ready to meet customer demand. Operationally, we plan to build inventory during this volatility to be ready for customer demand. In addition, in March we announced the launch of our newest pressure exchanger, the PX Q650, which represents a step-function improvement in performance versus our current industry-leading offering. The PX Q650 continues to lower operating costs for customers as they scale towards ever larger facilities, and we back up our manufacturing excellence with an industry-leading 10-year warranty. Since launch, we have begun working with multiple customers to incorporate the Q650 into their design plans and secured our first customer order in early Q2.

Our manufacturing transformation continues, with significant progress in efficiency and cost improvement in our primary facility in the United States. Internationally, our plans to secure a low-cost manufacturing facility at a strategic location continue and we expect to have operational capabilities in the Middle East later this year.

Wastewater Business

Our Wastewater business entered 2026 with a clear strategic intent and, in the first quarter, saw early evidence of the progress we have made building the commercial and technical infrastructure. While Q1 revenue of \$0.6 million was seasonally light as expected, due in part to Chinese New Year, it represented significant growth of 97% over Q1 2025. Although we saw no direct impact from the war in Iran in Q1, we are not immune to the broader global economic and logistical disruptions that a prolonged conflict can introduce. For the remainder of the year, we are focused on three priorities.

First, our Low-Pressure PX products have clear commercial momentum, with a pipeline that has more than doubled over the past twelve months. We have successfully expanded geographically into the Middle East, North Africa, and Southeast Asia, refined our marketing approach, and importantly, developed a growing body of reference installations that give prospective customers the technical confidence to commit. In terms of our international footprint, we now have Low-Pressure PX deployments in operation across Italy, Switzerland, Brazil, India, Spain, Belgium, and China, spanning both municipal and industrial applications at scale. Each installation is both proof of performance and a business development asset for the next opportunity.

Second, we are also building our technical and commercial capabilities in zero liquid discharge (“ZLD”) applications in battery manufacturing, a market we pioneered with our first installation in 2022. In this application, our Ultra High-Pressure PX enables the recovery of ammonium sulfate from wastewater streams in ferric phosphate production, reducing both energy consumption and environmental discharge. Lithium prices have recovered approximately 40% since the start of 2026, driven by surging demand from data center energy storage build out and broader power infrastructure investment. The result is a reactivation of capital spending across the battery manufacturing base. We are tracking dozens of potential plant expansion projects in China, as well as retrofit opportunities in existing facilities where our technology can be applied.

Finally, we are developing several new products and the tools that accelerate commercial decisions. We are developing new types of pressure exchangers for a range of applications, which we expect will extend our performance advantage. As one example, our Power Model Pro (“PMP”) platform, which allows engineers and plant operators to model system-level performance and ROI for PX-integrated designs, reached record engagement for wastewater customers in Q1. The resulting sales underscore PMP’s role as both a technical and commercial asset. We see expanding adoption of PMP among wastewater customers as a key priority for the year.

2026 Outlook

Given the extraordinary and unforeseen circumstances of a war in Iran, we are temporarily withdrawing guidance until we can provide a more thoughtful assessment of our 2026 outlook. Despite the lack of visibility into our near-term outlook, we are well capitalized with sufficient resources to continue investing in the business for long-term success.

To provide additional context to better assess the impact on our business, we are offering the following:

- We have not received formal delay notices from any customers on contracted projects.
- Projects in countries with meaningful exposure to the conflict represented approximately 40% of our original 2026 Desalination revenue guidance at the midpoint.
- Even under a scenario where this revenue is fully delayed into future periods, we expect to generate meaningful free cash flow in 2026, supported by our Wastewater business, our core OEM and Aftermarket channels, and lean cost structure.
- Our manufacturing cost improvements are on track, and we remain diligent in controlling our operating expenses.

We expect to provide updates each quarter as the situation with Iran evolves and it is our expectation to reinstate formal guidance when we regain enough near-term visibility.

In Q1, we incurred \$4.8 million of restructuring charges, including \$1.7 million of goodwill impairment, and \$1.5 million of expected cash expenses. These were both in line with the range of expectations we communicated. We expect to incur minimal restructuring charges in future quarters in 2026.

We continue to expect capital expenditures of \$3-6 million as we embark on long-term plans to transform our manufacturing footprint.

Financial Highlights

	Quarter-to-Date		
	Q1'2026	Q1'2025	vs. Q1'2025
	<i>(In millions, except net loss per share, percentages and basis points)</i>		
Revenue	\$9.7	\$8.1	up 20%
Gross margin	27.8%	55.3%	down 2750 bps
Operating margin	(153.1%)	(155.8%)	up 270 bps
Net loss	(\$12.3)	(\$9.9)	down 24%
Diluted loss per share	(\$0.23)	(\$0.18)	down \$0.05
Effective tax rate			
Cash provided by operations	\$21.0	\$10.7	

Non-GAAP Financial Highlights ⁽¹⁾

	Quarter-to-Date		
	Q1'2026	Q1'2025	vs. Q1'2025
	<i>(In millions, except adjusted net loss per share, percentages and basis points)</i>		
Adjusted operating margin	(83.1%)	(120.4%)	up 3730 bps
Adjusted net loss	(\$6.0)	(\$7.0)	up 15%
Adjusted loss per share	(\$0.11)	(\$0.13)	up \$0.02
Adjusted EBITDA	(\$7.1)	(\$8.7)	
Free cash flow	\$20.2	\$10.5	

⁽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 expectation that despite the challenges we foresee in 2026, the Company will generate significant free cash flow in 2026; our expectation that the Company will maintain a steady pace of share repurchases under our share repurchase program; our expectation that the current conflict in Iran will impact our Desalination revenue in 2026; our belief that the Company is in a strong position, competitively and financially, to withstand volatility; our expectation that we will establish operational capabilities in the Middle East in 2026; and our belief that the Company is well capitalized with sufficient resources to continue investing in the business for long-term success. 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, 2025, 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 loss, adjusted loss 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 loss from operations which excludes i) stock-based compensation; ii) restructuring charges, iii) restructuring - inventory reserve, iv) impairment of long-lived assets, and v) impairment of goodwill, divided by revenues.
- *Adjusted net loss* is a non-GAAP financial measure that the Company defines as net loss which excludes i) stock-based compensation; ii) restructuring charges; iii) restructuring - inventory reserve, iv) impairment of long-lived assets; v) impairment of goodwill and vi) the applicable tax effect of the excluded items including the stock-based compensation discrete tax item.
- *Adjusted loss per share* is a non-GAAP financial measure that the Company defines as net loss, which excludes i) stock-based compensation; ii) restructuring charges; iii) restructuring - inventory reserve, iv) impairment of long-lived assets; v) impairment of goodwill and vi) 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 loss which excludes i) depreciation and amortization; ii) stock-based compensation; iii) restructuring charges; iv) restructuring - inventory reserve, v) impairment of long-lived assets; vi) impairment of goodwill vii) other income, net, such as interest income and other non-operating income, net; and viii) benefit from 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)

	March 31, 2026	December 31, 2024
<i>(In thousands)</i>		
ASSETS		
Cash, cash equivalents and investments	\$ 92,142	\$ 83,283
Accounts receivable and contract assets	40,642	78,286
Inventories, net	30,886	24,260
Prepaid expenses and other assets	3,383	3,416
Property, equipment and operating leases	19,955	20,635
Goodwill	11,128	12,790
Deferred tax assets and other assets	10,852	8,844
TOTAL ASSETS	\$ 208,988	\$ 231,514
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Accounts payable, accrued expenses, and other liabilities, current	\$ 13,680	\$ 13,784
Contract liabilities and other liabilities, non-current	2,178	2,109
Lease liabilities	8,845	9,429
Total liabilities	24,703	25,322
Stockholders' equity	184,285	206,192
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 208,988	\$ 231,514

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

	Three Months Ended March 31,	
	2026	2025
	<i>(In thousands, except per share data)</i>	
Revenue	\$ 9,706	\$ 8,065
Cost of revenue	5,372	3,607
Restructuring - inventory reserve	1,632	—
Gross profit	2,702	4,458
Operating expenses		
General and administrative	6,455	8,574
Sales and marketing	5,119	4,906
Research and development	2,789	3,001
Restructuring charges	1,536	539
Impairment of goodwill	1,662	—
Total operating expenses	17,561	17,020
Loss from operations	(14,859)	(12,562)
Other income, net	833	1,079
Loss before income taxes	(14,026)	(11,483)
Benefit from income taxes	(1,775)	(1,603)
Net loss	\$ (12,251)	\$ (9,880)
Net loss per share		
Basic and diluted	\$ (0.23)	\$ (0.18)
Number of shares used in per share calculations		
Basic and diluted	52,660	54,902

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

	Three Months Ended March 31,	
	2026	2025
	<i>(In thousands)</i>	
Cash flows from operating activities:		
Net loss	\$ (12,251)	\$ (9,880)
Non-cash adjustments	4,269	1,427
Net cash provided by operating assets and liabilities	29,019	19,131
Net cash provided by operating activities	21,037	10,678
Cash flows from investing activities:		
Net investment in marketable securities	(6,805)	12,855
Capital expenditures	(814)	(191)
Proceeds from sales of fixed assets	13	10
Net cash (used in) provided by investing activities	(7,606)	12,674
Cash flows from financing activities:		
Net proceeds from issuance of common stock	—	1,092
Tax payment for employee shares withheld	(682)	(476)
Repurchase of common stock and payment of excise tax	(10,694)	(4,490)
Net cash used in financing activities	(11,376)	(3,874)
Effect of exchange rate differences	(15)	33
Net change in cash, cash equivalents and restricted cash	\$ 2,040	\$ 19,511
Cash, cash equivalents and restricted cash, end of period	\$ 50,116	\$ 49,268

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	
	Q1'2026	Q1'2025
	<i>(In millions, except shares, per share and percentages)</i>	
Operating margin	(153.1)%	(155.8)%
Stock-based compensation	20.2	24.3
Restructuring charges	15.8	6.7
Impairment of long-lived assets	—	4.4
Restructuring - inventory reserve	16.8	—
Impairment of goodwill	17.1	—
Adjusted operating margin	(83.1)%	(120.4)%
Net loss	\$ (12.3)	\$ (9.9)
Stock-based compensation	2.0	2.0
Restructuring charges ⁽²⁾	1.3	0.5
Impairment of long-lived assets ⁽²⁾	—	0.3
Restructuring - inventory reserve ⁽²⁾	1.4	—
Impairment of goodwill ⁽²⁾	1.4	—
Stock-based compensation discrete tax item	0.1	0.1
Adjusted net loss	\$ (6.0)	\$ (7.0)
Net loss per share	\$ (0.23)	\$ (0.18)
Adjustments to net loss per share ⁽³⁾	0.12	0.05
Adjusted loss per share	\$ (0.11)	\$ (0.13)
Net loss	\$ (12.3)	\$ (9.9)
Stock-based compensation	2.0	2.0
Depreciation and amortization	1.0	1.0
Restructuring charges	1.5	0.5
Impairment of long-lived assets	—	0.4
Restructuring - inventory reserve	1.6	—
Impairment of goodwill	1.7	—
Other income, net	(0.8)	(1.1)
Benefit from income taxes	(1.8)	(1.6)
Adjusted EBITDA	\$ (7.1)	\$ (8.7)
Free cash flow		
Net cash provided by operating activities	\$ 21.0	\$ 10.7
Capital expenditures	(0.8)	(0.2)
Free cash flow	\$ 20.2	\$ 10.5

⁽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.