ERII Q3 2026 Letter to Shareholders

Fellow Shareholders,

- Q3 revenue of $11.2 million was impacted by the ongoing war in the Middle East.
  - Megaproject revenue was $0.9 million compared with $18.4 million last year.
  - Our Desalination OEM and Aftermarket channels were more resilient at a combined $9.8 million of revenue compared with $10.7 million last year.
  - Wastewater segment revenue was $0.5 million compared with $2.8 million last year.

- Given ongoing geopolitical uncertainty, financial guidance remains withdrawn until visibility improves. To provide additional insight into our expectations, we note that:
  - Our Q4 Megaproject backlog totals $17 million, with the potential for additional contracting activity in Q4.
  - We expect our OEM and Aftermarket channels to be resilient for the full year, supported by Q4'26 backlog of $10 million.
  - In our Wastewater segment, we expect revenue of $3 million for the full year 2026.
  - Our financial position remains strong with $85.6 million of current total cash and investments. We expect to maintain significant cash through year-end, even with continued share repurchases.

- We are seeing a clear return of desalination contracting and construction activity in the Middle East, providing cautious optimism toward a strong rebound in our Megaproject business in 2027 and beyond. Construction has resumed on multiple large plants in Persian Gulf countries where activity was paused earlier this year. In the last 30 days, we have signed contracts valued at $30 million for desalination plants in the Middle East and our total backlog stands at over $60 million. In addition:
  - We have line-of-sight to at least $50 million of Megaproject revenue in 2027 based on projects contracted and in active negotiation today.
  - Underlying demand for desalination remains robust. Our Megaproject pipeline has grown from ~$500 million at the beginning of this year to ~$525 million today, reflecting continued secular expansion of desalination capacity from the Middle East to South America, India, and East Asia.
  - Elevated global energy prices this year have heightened customer interest in our PX Q650, which provides the lowest specific energy consumption of any pressure exchanger.

- With the CO_2 wind-down completed earlier this year, we are now a pure-play water technology company with zero debt, and that flexibility and focus are evident in our operating results.
  - Our next-generation product, the PX Q650, launched earlier this year in record time with market acceptance well ahead of expectations. This product is already specified at multiple large desalination plant sites.
  - We are driving our manufacturing costs lower with the ramp of our new manufacturing site in Damman, Saudi Arabia.
  - We have been successful in reducing costs across the company in response to a challenging market environment.
  - Our operating expenses in Q3'26 of $14.0 million were 17.2% below last year and 22.5% leaner than two years ago. We are prepared to take additional action as needed to preserve profitability and shareholder value.

- We continued to repurchase shares in the quarter and have now bought back $108.5 million of stock since Q4'24. We have $21.3 million remaining under the current authorization.

Message from the Interim CEO

I am incredibly proud of the way the Energy Recovery team has executed through a difficult geopolitical crisis. During this time, our sales team drove improvements in market capture for OEM and AM channels while improving our positioning on upcoming Megaproject projects as contracting activity has resumed. In engineering, the team launched the PX Q650 in record time, reinforcing our technology leadership with the highest-performing pressure exchanger on the market. In manufacturing, the team is ramping our new facility in Saudi Arabia, deepening our commitment to this important growth market. It is a privilege to lead this talented and dedicated team.

Drawing from structural water scarcity tailwinds and clear technology leadership, Energy Recovery's franchise value transcends the current geopolitical environment. Our ability to "play through" this turbulence with confidence and clarity is driven by a strong balance sheet (zero debt and $85.6 million of cash and investments), a uniquely strong sales pipeline, and a strengthening market position. Given the dynamic market environment, I want to expand on the unique value of our company and my excitement for its future.

Energy Recovery's Core Business and Outlook

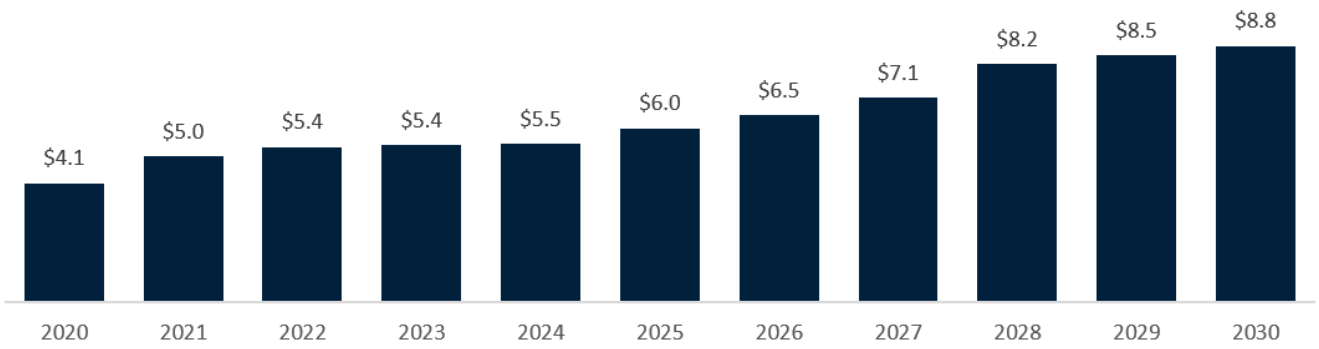
Founded in 1992, Energy Recovery has grown into the largest global manufacturer of pressure exchangers, critical components that have enabled the modern desalination industry and are now unlocking lower-cost wastewater treatment and water re-use. Today, the PX is widely accepted as the gold standard, with over 40,000 installations globally and a presence in every major desalination site. After nearly 35 years of building a powerhouse in water technology, the market we serve is now entering its largest build-out phase yet.

Technology Leadership. Our technology leadership is built on a long history of innovation, and we are reinforcing that today with new products. The PX is a ceramic rotary device with a single moving part, no motor, and no need for lubrication. By recycling pressure energy, it is the reason that a modern desalination plant consumes a fraction of the energy required by a plant built in the 1990s. The economic benefits to our customers will continue to increase with this year's launch of the PX Q650, which delivers the lowest specific energy consumption of any available product. Backed by a 10-year warranty, in practice, the PX operates for decades with minimal or no failure. That reliability is the product of a highly engineered design, a precision ceramic materials capability we have refined over many years at our flagship center of excellence in San Leandro, California, and a manufacturing process built for precision and scale. These product attributes matter a great deal to our customers. Desalination plants are multi-billion-dollar assets built to operate for 30-plus years, and with energy and maintenance costs rising, owners demand proven, durable, long-life products.

Market Reputation. Our track record of innovation, quality, and durability has earned Energy Recovery a reputation that few industrial suppliers can match. Across water infrastructure, very few products are known to last for decades with minimal or no failure, and that record gives us credibility with every party to a project, including the owners and operators who run the plant, the contractors who build it, and the lenders who finance it. Aside from energy costs, maintenance and repair are among the largest operating costs of a desalination or waste water reuse plant, and owners choose our devices as a dependable way to ensure lean operating expenses. For the EPCs that build these plants, our on-time delivery and the simple installation and commissioning of our devices help them finish projects on time and on budget. And construction lenders look for our products in a plant's specification as assurance of low-risk operation over the life of the asset. This reputation produces durable results, with a substantial majority of our revenue each year coming from returning customers with whom we hold long, enduring relationships.

Long-term Secular Growth. Our future growth will be driven by demand for solutions to combat water scarcity, a megatrend that we conservatively estimate will persist for decades and one that requires significant global growth of desalination and reuse capacity. The structural and growing gap in water availability is driven by both supply and demand, and widens every year due to declining rainfall and groundwater depletion, as well as by population growth, industrial expansion, and increasing per capita water consumption. Importantly, this demand gap has no natural solution, as water conservation strategies reach practical limits. Based on current technology, desalination and wastewater reuse are the two most practical solutions to address water scarcity and close the supply-demand imbalance. The advantage of water reuse is low cost at scale, driven by the purification of water in close proximity to demand and the avoidance of long-distance conveyance costs. Desalination's advantage lies in its consistency and abundance. Capital spending on desalination and water reuse is expected to grow 8% annually from 2025 through the end of the decade.

Global Water Desalination and Reuse Capex ($bn)



Source: Global Water Intelligence

As a result of these fundamental drivers, our Megaproject pipeline has continued to grow even through this geopolitical crisis. Our current pipeline stands at ~$525 million, an increase from ~$500 million earlier this year. There are notable new projects in Chile, India, and China slated for later this decade that are moving from early feasibility assessments into mainstream project planning phases. Moreover, our customers have not changed any long-term investment decisions, and we are not aware of any proposed desalination sites whose plans have been cancelled as a result of this crisis.

Recurring Revenue Base. In addition to new market growth, we expect to generate significant recurring revenue from our global installed base. Since our founding, we have installed over 40,000 pressure exchangers, and our devices are present in every major desalination facility globally. This installed base spans more than a thousand customers, and the reputation and relationships we have established with them form the basis for a strong, reliable source of future revenue. With meaningful product uptake beginning in the late 1990s and early 2000s and a 30-year product life, a large portion of our installed base is experiencing replacement demand, which we believe will be an important source of additional long-term growth. We are also exploring ancillary service offerings to ensure and enhance the highest levels of product performance for our customers.

Vertical Integration. An important factor driving our historical success in this market—in terms of our customer reputation, revenue growth, and profitability—is our vertical integration. We design, develop, and manufacture our devices in-house, from making our own ceramic powder in our San Leandro center of excellence to the finished assemblies that will come off the line in Dammam next year. When materials scientists, ceramic machinists, and product developers collaborate, the result is unmatched product excellence, including a device that lasts decades in extreme environments with little to no failure. That manufacturing core is surrounded by a global sales organization with a presence in every major desalination market, an applications engineering team that works inside customer plant designs, and a field service and aftermarket organization that supports an installed base of tens of thousands of devices. Building a fully vertically integrated infrastructure creates a high barrier to entry, and is foundational to our high product quality, brand reputation, and market leadership.

Focused on Execution. The success that we have achieved in our core business over decades gives us strong conviction that our team can execute, return to a cadence of outperformance, and unlock significant incremental value for shareholders. We are investing in product innovation to reinforce our leading market position well into the future. The PX Q650, launched earlier this year, is quickly becoming the market standard and already specified into multiple desalination plant sites. We are also investing in our people, as our reputation for consistency is underpinned by a long-tenured team in sales, manufacturing, and engineering. Finally, we are heads-down on completing our global manufacturing transformation, ensuring that the Dammam facility provides a high-quality and low-cost source of additional manufacturing capacity in close proximity to our largest geo-markets. In conjunction with these growth-inducing measures, we remain focused on identifying additional opportunities to deliver shareholder value in the short- and long-term.

Q3 Results

Total revenue in Q3 2026 of $11.2 million declined 65.0%, primarily due to the impact of war and geopolitical challenges on our Megaproject business. Due to relatively better geographic diversification and dispersion, our Desalination OEM channel remained more resilient amid these challenges. Our Desalination Aftermarket business was impacted by modest de-stocking by customers in the Middle East. Our Wastewater segment generated Q3 2026 revenue of $0.5 million. With over 300 reference cases with proven economics and the realignment of our sales organization, our Wastewater segment is now positioned for growth.

Gross margin of 37.5% in Q3 was negatively impacted by fixed costs spread over lower volume, particularly in our Megaproject channel, with no change in underlying product economics. Year-to-date, and adjusted by $1.6 million of one-time costs related to our CO_2 wind down in Q1, our gross margin stands at 53.2%.

Third-quarter operating expenses were $14.0 million, a decrease from $16.9 million last year. These savings result from the restructuring of our CO_2 business as well as a variety of targeted cost savings. We are committed to maintaining strong control over costs to partially offset the impact of the current environment on profitability.

Adjusted EBITDA[(1)] of $(7.8) million decreased from $6.8 million in Q3'25 and Adjusted EPS[(1)] of $(0.10) decreased from $0.12 in Q3 2025.

Capital expenditures of $0.3 million were at maintenance levels.

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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

Outlook

The ongoing war in Iran and associated geopolitical events continue to limit our near-term visibility, and we are leaving our guidance withdrawn for the time being. We are well capitalized and expect to maintain a significant cash balance even while investing in our core business and repurchasing our stock at a steady pace. In place of formal guidance, we offer the following insights into our future expectations:

- Our Megaproject backlog for Q4'26 totals $17 million, with potential for additional contracting activity in the final two months of the year.
- For the full year 2026, we expect our Desalination OEM and Aftermarket businesses to be steady compared with last year, supported by $10 million of Q4'26 backlog
- We expect Wastewater segment revenue of $3 million for 2026. We have made targeted changes to the Wastewater organization that we expect will benefit 2027 results.
- We are exerting strong control over our operating expenses.

We expect total 2026 capital expenditures of $3-4 million as we continue to build the Saudi Arabia facility in Q4 this year.

Financial Highlights

	Quarter-to-Date			Year to Date		
	Q3'2026	Q3'2025	vs. Q3'2025	2026	2025	2026 vs. 2025
	(In millions, except net income (loss) per share, percentages and basis points)					
Revenue	$11.2	$32.0	down 65%	$32.9	$68.1	down 52%
Gross margin	37.5%	64.2%	down 2670 bps	48.2%	63.1%	down 1490 bps
Operating margin	(87.5%)	11.4%	NM	(92.8%)	(10.9%)	NM
Net income (loss)	($6.3)	$3.9	down 263%	($21.8)	($4.0)	down 451%
Diluted earnings (loss) per share	($0.12)	$0.07	down $0.19	($0.42)	($0.07)	down $0.35
Effective tax rate				23.1%	13.0%	
Cash provided by (used for) operations	($9.8)	($3.1)		$28.1	$11.7	

Non-GAAP Financial Highlights [1]

	Quarter-to-Date			Year to Date		
	Q3'2026	Q3'2025	vs. Q3'2025	2026	2025	2026 vs. 2025
	(In millions, except adjusted net income (loss) per share, percentages and basis points)					
Adjusted operating margin	(78.7%)	18.3%	down 9700 bps	(62.4%)	(0.6%)	NM
Adjusted net income (loss)	($5.0)	$6.3	down 179%	($12.2)	$3.0	NM
Adjusted earnings (loss) per share	($0.10)	$0.12	down $0.22	($0.24)	$0.06	down $0.30
Adjusted EBITDA	($7.8)	$6.8		($17.5)	$2.4	
Free cash flow	($10.1)	($3.5)		$25.9	$11.0	

[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 stead 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 income (loss), adjusted earnings (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 income (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 income (loss)* is a non-GAAP financial measure that the Company defines as net income (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 earnings (loss) per share* is a non-GAAP financial measure that the Company defines as net income (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 income (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 (expense), net, and viii) 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, 2026	December 31, 2024
	(In thousands)	
ASSETS		
Cash, cash equivalents and investments	$ 85,605	$ 83,283
Accounts receivable and contract assets	10,657	78,286
Inventories, net	44,050	24,260
Prepaid expenses and other assets	5,879	3,416
Property, equipment and operating leases	18,879	20,635
Goodwill	11,128	12,790
Deferred tax assets and other assets	15,235	8,844
TOTAL ASSETS	**$ 191,433**	**$ 231,514**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Accounts payable, accrued expenses, and other liabilities, current	$ 16,169	$ 13,784
Contract liabilities and other liabilities, non-current	2,014	2,109
Lease liabilities	8,493	9,429
Total liabilities	**26,676**	**25,322**
Stockholders' equity	**164,757**	**206,192**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 191,433**	**$ 231,514**

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2026	2025	2025	2024
	(In thousands, except per share data)			
Revenue	**$ 11,196**	**$ 32,000**	**$ 32,898**	**$ 68,116**
Cost of revenue	6,999	11,442	15,410	25,146
Restructuring - inventory reserve	—	—	1,632	—
Gross profit	**4,197**	**20,558**	**15,856**	**42,970**
Operating expenses				
General and administrative	6,712	7,514	19,968	23,757
Sales and marketing	4,165	5,714	13,620	15,980
Research and development	3,115	3,668	8,753	10,120
Restructuring charges	—	—	2,391	539
Impairment of goodwill	—	—	1,662	—
Total operating expenses	**13,992**	**16,896**	**46,394**	**50,396**
Income (loss) from operations	**(9,795)**	**3,662**	**(30,538)**	**(7,426)**
Other income, net	596	892	2,231	2,885
Income (loss) before income taxes	**(9,199)**	**4,554**	**(28,307)**	**(4,541)**
Provision for (benefit from) income taxes	(2,869)	680	(6,528)	(589)
Net income (loss)	**$ (6,330)**	**$ 3,874**	**$ (21,779)**	**$ (3,952)**
Net income (loss) per share				
Basic	$ (0.12)	$ 0.07	$ (0.42)	$ (0.07)
Diluted	$ (0.12)	$ 0.07	$ (0.42)	$ (0.07)
Number of shares used in per share calculations				
Basic	51,033	53,162	51,714	54,101
Diluted	51,033	53,466	51,714	54,101

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

	Nine Months Ended September 30,	
	2026	**2025**
	(In thousands)	
Cash flows from operating activities:		
Net loss	$ (21,779)	$ (3,952)
Non-cash adjustments	4,923	8,747
Net cash provided by operating assets and liabilities	44,952	6,898
Net cash provided by operating activities	**28,096**	**11,693**
Cash flows from investing activities:		
Net investment in marketable securities	(7,696)	37,670
Capital expenditures	(2,148)	(668)
Proceeds from sales of fixed assets	13	10
Net cash (used in) provided by investing activities	**(9,831)**	**37,012**
Cash flows from financing activities:		
Net proceeds from issuance of common stock	132	1,931
Tax payment for employee shares withheld	(725)	(567)
Repurchase of common stock and net excise tax activity	(23,246)	(32,781)
Net cash used in financing activities	**(23,839)**	**(31,417)**
Effect of exchange rate differences	(20)	58
Net change in cash, cash equivalents and restricted cash	**$ (5,594)**	**$ 17,346**
Cash and cash equivalents, end of period	**$ 42,482**	**$ 47,103**

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	
	Q3'2026	Q3'2025	Q3'2026	Q3'2025
	(In millions, except shares, per share and percentages)			
Operating margin	**(87.5)%**	**11.4 %**	**(92.8)%**	**(10.9)%**
Stock-based compensation	8.8	6.9	13.2	9.0
Restructuring charges	—	—	7.3	0.8
Impairment of long-lived assets	—	—	—	0.5
Restructuring - inventory reserve	—	—	5.0	—
Impairment of goodwill	—	—	5.1	—
Adjusted operating margin	**(78.7)%**	**18.3 %**	**(62.4)%**	**(0.6)%**
Net income (loss)	**$ (6.3)**	**$ 3.9**	**$ (21.8)**	**$ (4.0)**
Stock-based compensation	1.0	2.2	4.3	6.1
Restructuring charges [2]	—	—	2.0	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	0.3	0.3	0.4	0.1
Adjusted net income (loss)	**$ (5.0)**	**$ 6.3**	**$ (12.2)**	**$ 3.0**
Net income (loss) per share	**$ (0.12)**	**$ 0.07**	**$ (0.42)**	**$ (0.07)**
Adjustments to net income (loss) per share [3]	0.02	0.05	0.18	0.13
Adjusted earnings (loss) per share	**$ (0.10)**	**$ 0.12**	**$ (0.24)**	**$ 0.06**
Net income (loss)	**$ (6.3)**	**$ 3.9**	**$ (21.8)**	**$ (4.0)**
Stock-based compensation	1.0	2.2	4.3	6.1
Depreciation and amortization	1.0	0.9	3.0	2.8
Restructuring charges	—	—	2.4	0.5
Impairment of long-lived assets	—	—	—	0.4
Restructuring - inventory reserve	—	—	1.6	—
Impairment of goodwill	—	—	1.7	—
Other income, net	(0.6)	(0.9)	(2.2)	(2.9)
Provision for (benefit from) income taxes	(2.9)	0.7	(6.5)	(0.6)
Adjusted EBITDA	**$ (7.8)**	**$ 6.8**	**$ (17.5)**	**$ 2.4**
Free cash flow				
Net cash provided by (used in) operating activities	$ (9.8)	$ (3.1)	$ 28.1	$ 11.7
Capital expenditures	(0.3)	(0.3)	(2.1)	(0.7)
Free cash flow	**$ (10.1)**	**$ (3.5)**	**$ 25.9**	**$ 11.0**

[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.