November 2, 2022

Energy Recovery Reports 47% Quarterly Product Revenue Growth in Third Quarter

SAN LEANDRO, CA / ACCESSWIRE / November 2, 2022 / Energy Recovery, Inc. (NASDAQ:ERII) ("Energy Recovery" or the "Company") today announced its financial results for the third quarter ended September 30, 2022.

Third Quarter Highlights:

- Revenue of $30.5 million. Full year revenue guidance of $121-$125 million, or 16%-20% year-on-year growth, within gross margin expectations guided last year.
- Income from operations of $4.9 million and adjusted income from operations[(1)] of $6.8 million.
- Net income of $4.8 million, or $0.08 per share, and adjusted net income per share[(1)] of $0.12.
- Adjusted EBITDA[(1)] of $7.7 million.
- Cash and investments of $86.6 million, which include cash, cash equivalents, and short-term and long-term investments.
- We successfully installed and commissioned our PX G1300™ fully integrated with the CO_2 refrigeration rack for Vallarta Supermarkets in California.
- We released our third annual Environmental, Social, and Governance ("ESG") report, which can be found on our website and using this link: https://ir.energyrecovery.com/websites/energyrecover/English/6500/esg-at-energy-recovery.html#.

Robert Mao, Chairman, President and CEO, commented on the financial results, "We continue to make important strides in all three of our businesses, and believe we have the right products and strategy to deliver on our goals despite the challenging macro-economic environment. In our CO_2 refrigeration business, we have gone live with the installation of our PX G1300 with Vallarta Supermarkets in California. This is the second installation in a grocery store for the PX G1300, and we are collecting valuable data and proving the efficiency gains the PX G1300 delivers in CO_2 refrigeration racks."

Mr. Mao added, "In addition, the reference designs published on our website have piqued the interest of additional commercial and industrial refrigeration manufacturers. As a result of this, we will be shipping PX G1300 units to various customers for installation in the later part of this year, or early 2023. These units will be used for initial deployments in both commercial and industrial refrigeration applications."

"Sales in our industrial wastewater business continue to grow and we should exceed our full-year guidance of $3.0 million. In our water business we launched the PX Q400 pressure exchanger, which is the next evolution of our PX® Pressure Exchanger® technology. This new addition to our PX offering is our most efficient PX available for use in both SWRO and industrial wastewater applications."

Financial Highlights

Third Quarter (Quarter to Date)

	GAAP			Non-GAAP[1]		
	Q3 2022	Q3 2021	vs. Q3 2021	Q3 2022	Q3 2021	vs. Q3 2021
	(In millions except for percentages, basis points and per share amounts)					
Revenue	$ 30.5	$ 20.8	up 47%	$ 30.5	$ 20.8	up 47%
Gross margin	69.1 %	70.6 %	down 150 bps	69.5 %	71.1 %	down 160 bps
Operating margin	16.1 %	6.9 %	up 920 bps	22.4 %	12.8 %	up 960 bps
Net income	$ 4.8	$ 1.1	up 347%	$ 6.5	$ 2.3	up 182%
Net income per share	$ 0.08	$ 0.02	up 300%	$ 0.12	$ 0.04	up 200%
Effective tax rate	7.2 %	26.8 %		8.7 %	14.9 %	
Adjusted EBITDA				$ 7.7	$ 3.7	up 109%
Free cash flow				$ (1.6)	$ (6.7)	

Fiscal Year (Year to Date)

	GAAP			Non-GAAP[1]		
	2022	2021	2022 vs. 2021	2022	2021	2022 vs. 2021
	(In millions, except net income per share, percentages and basis points)					
Revenue	$ 83.3	$ 70.3	up 18%	$ 83.3	$ 70.3	up 18%
Gross margin	69.0 %	68.4 %	up 60 bps	69.4 %	68.8 %	up 60 bps
Operating margin	12.3 %	11.2 %	up 110 bps	20.3 %	17.7 %	up 260 bps
Net income	$ 10.3	$ 9.0	up 15%	$ 15.8	$ 11.2	up 41%
Net income per share	$ 0.18	$ 0.15	up 20%	$ 0.28	$ 0.20	up 40%
Effective tax rate	3.5 %	(12.4 %)		9.1 %	11.0 %	
Adjusted EBITDA				$ 19.8	$ 15.5	up 28%
Free cash flow				$ 3.3	$ 2.4	

1. "Adjusted income from operations," "Adjusted net income per share," "Free cash flow" and "Adjusted EBITDA" are non-GAAP financial measures. Refer to the sections "Use of Non-GAAP Financial Measures" and "Reconciliation of Non-GAAP Financial Measures."

Forward-Looking Statements

Certain matters discussed in this press release 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 expectations on full year revenue and gross margin guidance; our belief that the PX Q400 is the highest performing PX available for SWRO and industrial wastewater facilities; and our belief that the Company has the right products and strategy to survive the macro-economic environment and our goals. These forward-looking statements are based on information currently available to us and on management's beliefs, assumptions, estimates, or projections and are not guarantees of future events or results. Potential risks and uncertainties include 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, 2021, 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 press release includes certain non-GAAP financial measures, including adjusted income from operations, 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 Third Quarter and Year to Date 2022 Financial Results

- *Adjusted income from operations* is a non-GAAP financial measure that the Company defines as income from operations which excludes i) share-based compensation; and ii) non-recurring costs, such as severance costs and accelerated depreciation.
- *Adjusted net income per share* is a non-GAAP financial measure that the Company defines as net income, which excludes i) share-based compensation; and ii) non-recurring costs, such as severance costs and accelerated depreciation, and iii) the applicable tax effect of the excluded items including the share-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) share-based compensation; iii) non-recurring costs, such as severance costs; iv) other income, net, such as interest income and other non-operating (expense) income, net; and v) 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.

Conference Call to Discuss Third Quarter 2022 Financial Results

LIVE CONFERENCE CALL:

Wednesday, November 2, 2022, 2:00 PM PT / 5:00 PM ET
Listen-only, US / Canada Toll-Free: +1 (877) 709-8150

Listen-only, Local / International Toll: +1 (201) 689-8354

CONFERENCE CALL REPLAY:

Expiration: Friday, December 2, 2022
US / Canada Toll-Free: +1 (877) 660-6853
Local / International Toll: +1 (201) 612-7415
Access code: 13732700

Investors may access the live call and the replay (approximately three hours after the live call concludes) over the internet at:
https://ir.energyrecovery.com/websites/energyrecover/English/2200/calendar.html

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.

About Energy Recovery

Energy Recovery, Inc., creates technologies that solve complex challenges for commercial and industrial fluid-flow markets worldwide. Building on an innovative pressure exchanger technology platform, they design and manufacture solutions that make commercial and industrial processes more efficient and sustainable. What began as a game-changing invention for desalination has grown into a global business accelerating the environmental sustainability of customers' operations in multiple industries. Headquartered in the San Francisco Bay Area, Energy Recovery has manufacturing and research and development facilities across California and Texas with sales and on-site technical support available globally. To learn more, visit https://energyrecovery.com/.

Contact

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

	September 30, 2022	December 31, 2021
	(In thousands)	
ASSETS		
Cash, cash equivalents and investments	$ 86,558	$ 107,988
Accounts receivable and contract assets	19,313	21,108
Inventories, net	32,132	20,383
Prepaid expenses and other assets	5,486	4,582
Property, equipment and operating leases	32,234	35,014
Goodwill and other intangible assets	12,819	12,827
Deferred tax assets and other assets	11,579	11,788
TOTAL ASSETS	**$ 200,121**	**$ 213,690**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Accounts payable and accrued expenses	$ 13,250	$ 14,903
Contract liabilities	2,209	3,406
Lease liabilities	15,284	16,443
Other liabilities, non-current	75	159
Total liabilities	**30,818**	**34,911**
Stockholders' equity	**169,303**	**178,779**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 200,121**	**$ 213,690**

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(In thousands, except per share data)			
Revenue	**$ 30,462**	**$ 20,781**	**$ 83,300**	**$ 70,328**
Cost of revenue	9,417	6,089	25,835	22,251
Gross profit	**21,045**	**14,692**	**57,465**	**48,077**
Operating expenses				
General and administrative	7,608	5,853	21,155	18,641
Sales and marketing	4,703	2,996	11,916	8,236
Research and development	3,828	4,416	14,170	13,342
Total operating expenses	**16,139**	**13,265**	**47,241**	**40,219**
Income from operations	**4,906**	**1,427**	**10,224**	**7,858**
Other income, net	254	37	477	158
Income before income taxes	**5,160**	**1,464**	**10,701**	**8,016**
Provision for (benefit from) income taxes	371	393	377	(990)
Net income	**$ 4,789**	**$ 1,071**	**$ 10,324**	**$ 9,006**
Net income per share				
Basic	$ 0.09	$ 0.02	$ 0.18	$ 0.16
Diluted	$ 0.08	$ 0.02	$ 0.18	$ 0.15
Number of shares used in per share calculations				
Basic	55,881	57,026	56,291	57,053
Diluted	57,372	58,709	57,708	58,785

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

	Nine Months Ended September 30,	
	2022	2021
	(In thousands)	
Cash flows from operating activities:		
Net income	$ 10,324	$ 9,006
Non-cash adjustments	11,136	8,153
Net cash used in operating assets and liabilities	(15,192)	(9,865)
Net cash provided by operating activities	**6,268**	**7,294**
Cash flows from investing activities:		
Net investment in marketable securities	(1,857)	(22,653)
Capital expenditures, net	(2,265)	(4,894)
Net cash used in investing activities	**(4,122)**	**(27,547)**
Cash flows from financing activities:		
Net proceeds from issuance of common stock	2,244	8,939
Repurchase of common stock	(26,654)	(17,156)
Net cash used in financing activities	**(24,410)**	**(8,217)**
Effect of exchange rate differences	38	(40)
Net change in cash, cash equivalents and restricted cash	**$ (22,226)**	**$ (28,510)**
Cash, cash equivalents and restricted cash, end of period	**$ 52,235**	**$ 65,848**

ENERGY RECOVERY, INC.
SUPPLEMENTAL FINANCIAL INFORMATION
(Unaudited)

Channel Revenue

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	vs. 2021	2022	2021	vs. 2021
	(In thousands, except percentages)					
Megaproject	$ 17,347	$ 13,275	up 31%	$ 51,257	$ 50,307	up 2%
Original equipment manufacturer	9,032	4,844	up 86%	21,392	11,909	up 80%
Aftermarket	4,083	2,662	up 53%	10,651	8,112	up 31%
Total Revenues	**$ 30,462**	**$ 20,781**	**up 47%**	**$ 83,300**	**$ 70,328**	**up 18%**

Segment Activity

	Three Months Ended September 30, 2022				Three Months Ended September 30, 2021			
	Water	Emerging Technologies	Corporate	Total	Water	Emerging Technologies	Corporate	Total
				(In thousands)				
Revenue	**$ 30,462**	**$ -**	**$ -**	**$ 30,462**	**$ 20,767**	**$ 14**	**$ -**	**$ 20,781**
Cost of revenue	9,417	-	-	**9,417**	6,089	-	-	**6,089**
Gross profit	**21,045**	**-**	**-**	**21,045**	**14,678**	**14**	**-**	**14,692**
Operating expenses								
General and administrative	1,911	878	4,819	**7,608**	1,437	1,373	3,043	**5,853**
Sales and marketing	3,242	960	501	**4,703**	2,250	327	419	**2,996**
Research and development	1,216	2,612	-	**3,828**	762	3,654	-	**4,416**
Total operating expenses	**6,369**	**4,450**	**5,320**	**16,139**	**4,449**	**5,354**	**3,462**	**13,265**
Operating income (loss)	**$ 14,676**	**$ (4,450)**	**$ (5,320)**	**$ 4,906**	**$ 10,229**	**$ (5,340)**	**$ (3,462)**	**$ 1,427**

	Nine Months Ended September 30, 2022				Nine Months Ended September 30, 2021			
	Water	Emerging Technologies	Corporate	Total	Water	Emerging Technologies	Corporate	Total
				(In thousands)				
Revenue	**$ 83,191**	**$ 109**	**$ -**	**$ 83,300**	**$ 70,275**	**$ 53**	**$ -**	**$ 70,328**
Cost of revenue	25,817	18	-	**25,835**	22,251	-	-	**22,251**
Gross profit	**57,374**	**91**	**-**	**57,465**	**48,024**	**53**	**-**	**48,077**
Operating expenses								
General and administrative	4,909	3,140	13,106	**21,155**	4,777	3,854	10,010	**18,641**
Sales and marketing	8,197	2,120	1,599	**11,916**	6,535	735	966	**8,236**
Research and development	3,159	11,011	-	**14,170**	1,858	11,484	-	**13,342**
Total operating expenses	**16,265**	**16,271**	**14,705**	**47,241**	**13,170**	**16,073**	**10,976**	**40,219**
Operating income (loss)	**$ 41,109**	**$ (16,180)**	**$ (14,705)**	**$ 10,224**	**$ 34,854**	**$ (16,020)**	**$ (10,976)**	**$ 7,858**

Share-based Compensation

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
		(In thousands)		
Stock-based compensation expense charged to:				
Cost of revenue	$ 124	$ 86	$ 370	$ 314
General and administrative	743	628	2,735	2,235
Sales and marketing	426	271	1,232	1,048
Research and development	205	248	767	979
Total stock-based compensation expense	**$ 1,498**	**$ 1,233**	**$ 5,104**	**$ 4,576**

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

(Unaudited)

This press release 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	
	Q3'2022	Q3'2021	2022	2021
	(In millions, except shares, per share and percentages)			
Gross margin (GAAP)	**69.1 %**	**70.6 %**	**69.0 %**	**68.4 %**
Share-based compensation	0.4 %	0.5 %	0.4 %	0.4 %
Adjusted gross margin (non-GAAP)	**69.5 %**	**71.1 %**	**69.4 %**	**68.8 %**
Income from operations (GAAP)	**$ 4.9**	**$ 1.4**	**$ 10.2**	**$ 7.9**
Share-based compensation	1.5	1.2	5.1	4.6
Severance	-	-	0.3	-
Accelerated depreciation	-	-	0.9	-
Litigation charges	0.4	-	0.4	-
Adjusted income from operations (non-GAAP)	**$ 6.8**	**$ 2.7**	**$ 16.9**	**$ 12.4**
Operating margin (GAAP)	**16.1 %**	**6.9 %**	**12.3 %**	**11.2 %**
Share-based compensation	4.9 %	5.9 %	6.1 %	6.5 %
Severance	- %	- %	0.4 %	- %
Accelerated depreciation	- %	- %	1.0 %	- %
Litigation charges	1.4 %	- %	0.5 %	- %
Adjusted operating margin (non-GAAP)	**22.4 %**	**12.8 %**	**20.3 %**	**17.7 %**
Net income (GAAP)	**$ 4.8**	**$ 1.1**	**$ 10.3**	**$ 9.0**
Share-based compensation [(2)]	1.5	1.2	5.1	4.6
Severance [(2)]	-	-	0.3	-
Accelerated depreciation [(2)]	-	-	0.7	-
Litigation charges [(2)]	0.4	-	0.4	-
Share-based compensation discrete tax item	(0.2)	-	(1.0)	(2.4)
Adjusted net income (non-GAAP)	**$ 6.5**	**$ 2.3**	**$ 15.8**	**$ 11.2**
Net income per share (GAAP)	**$ 0.08**	**$ 0.02**	**$ 0.18**	**$ 0.15**
Adjustments to net income per share [(3)]	0.04	0.02	0.10	0.05
Adjusted net income per share (non-GAAP)	**$ 0.12**	**$ 0.04**	**$ 0.28**	**$ 0.20**
Shares used in calculating adjusted net income per share (in thousands)				
Diluted shares (GAAP)	**57,372**	**58,709**	**57,708**	**58,785**
Less: Dilutive equity awards	1,491	1,683	1,417	1,732
Diluted shares (non-GAAP)	**55,881**	**57,026**	**56,291**	**57,053**
Effective tax rate (GAAP)	**7.2 %**	**26.8 %**	**3.5 %**	**(12.4 %)**
Adjustments to effective tax rate [(4)]	1.5 %	(11.9 %)	5.6 %	23.3 %
Adjusted effective tax rate (non-GAAP)	**8.7 %**	**14.9 %**	**9.1 %**	**11.0 %**

Net income (GAAP)	**$ 4.8**	**$ 1.1**	**$ 10.3**	**$ 9.0**
Share-based compensation	1.5	1.2	5.1	4.6
Severance	-	-	0.3	-
Depreciation and amortization	0.9	1.0	3.8	3.1
Litigation charges	0.4	-	0.4	-
Other income, net	(0.3)	-	(0.5)	(0.2)
Provision for (benefit from) income taxes	0.4	0.4	0.4	(1.0)
Adjusted EBITDA (non-GAAP)	**$ 7.7**	**$ 3.7**	**$ 19.8**	**$ 15.5**

Free cash flow				
Net cash provided by (used in) operating activities	$ (1.2)	$ (4.2)	$ 6.3	$ 7.3
Capital expenditures	(0.4)	(2.5)	(3.0)	(4.9)
Free cash flow (non-GAAP)	**$ (1.6)**	**$ (6.7)**	**$ 3.3**	**$ 2.4**

1. Amounts may not total due to rounding.
2. Amount presented are net of tax.
3. Adjustments to net income per share reflects the adjustments for share-based compensation discrete tax item, and share-based compensation, severance costs and accelerated depreciation, net of taxes, on a per share basis.
4. Adjustments to effective tax rate reflects adjustments for share-based compensation discrete tax item, share-based compensation, severance costs and accelerated depreciation.

SOURCE: Energy Recovery, Inc.

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https://www.accesswire.com/723554/Energy-Recovery-Reports-47-Quarterly-Product-Revenue-Growth-in-Third-Quarter