



CASE STUDY

# Project Spotlight: Energy Recovery's ESG Journey

Energy Recovery is the global leader in pressure energy technology and a hub of engineering innovation supporting the global desalination industry. FTI Consulting's Strategic Communications segment has worked with Energy Recovery for over five years, supporting the company with corporate reputation, executive positioning, investor relations and employee engagement projects. When Energy Recovery's board and senior management team committed to formally develop the company's Environmental, Social and Governance (ESG) program, Energy Recovery partnered with FTI once again. ESG program development began in late 2019, with the company publishing its inaugural ESG Report in September 2020.

FTI sat down with Energy Recovery's Chief Financial Officer, Josh Ballard, Vice President of Investor Relations, James Siccardi, and Senior Director of Communications and ESG, Kelley Vendeland, to discuss the company's ESG journey and the value the company is already seeing. Highlights of the conversation are below.

## What prompted you to formalize your ESG program and develop your first-ever ESG report?

In May 2019, Energy Recovery executives traveled to Norway for a series of meetings with current and potential investors. "Every single meeting, dinner, and coffee we had on that trip turned to one topic: ESG. Every investor we spoke to brought up ESG," said Mr. Siccardi. He added, "Given the nature of our base business, which reduces the energy and emissions of producing clean water via desalination, we've always felt we had a strong ESG story. However, we'd never formalized a company-wide approach, nor communicated key ESG elements of the business in a formal way."

After returning from the trip, Energy Recovery turned to FTI to get a broader view of the global ESG landscape and how Energy Recovery could best approach formalizing its own ESG program and communicate those efforts through a sustainability report. According to Mr. Siccardi, "We went pretty quickly from 'We really need to look into this further,' to 'How can we best approach this and actually get it done.'" He continued, "FTI made the process less daunting, and outlined clear steps we needed to take to make our first foray into ESG."

## What process did you undertake and how did FTI support?

"In building our first program, the biggest question we had to overcome, frankly, was how to apply formalized ESG-principles to the actual business. The Energy Recovery leadership team saw the need very quickly. The trick was to understand how to best integrate an ESG program that our investors, customers, and larger workforce would recognize as adding value to our company," said Mr. Ballard. To do this, FTI worked with Energy Recovery to identify and survey investors, analysts, and employees. This helped the company gain a better understanding of how their stakeholders felt about ESG, what they value, and what they would be looking for within Energy Recovery's ESG program.

Using stakeholder input as the foundation, FTI provided Energy Recovery's leadership team with insight into the many ESG ratings agencies, the best practices for engaging with them, and how to choose and apply the right sustainability reporting frameworks to Energy Recovery's business.

"FTI played a key role in helping educate and narrow the focus," said Mr. Ballard. He added, "We had to spend a great deal of time learning what the various reporting standards and ratings actually entail. Coupled with FTI's deep knowledge of our business, FTI provided the guidance we otherwise wouldn't have."

## What were some of the insights gained by Energy Recovery throughout this process? Was there anything that surprised you, good or bad?

"When going through the process, we were pleasantly surprised by everything we had to talk about – the process helped identify everything we were already doing in terms of sustainability. We just hadn't quantified it so thoroughly before," said Ms. Vendeland. "For example, we were able to determine that 89% of our total product revenue comes from energy-efficiency related products and that over 95% of our PX™ Pressure Exchangers contain components made from recycled materials. These are important metrics that we, at our core, always strove for, but never calculated or communicated these metrics in an all-encompassing, organized way," she added. "The ESG program development process also allowed us to ramp up our focus on safety within the organization and positioned us to respond quickly to the new risks presented from COVID-19," said Ms. Vendeland.

## We know the report was only recently released, but so far, how has the ESG program and report created value with Energy Recovery's investors, customers, and other key stakeholders? What have the responses been?

"The investor response has been tremendous," said Mr. Siccardi.

The demand and attention around ESG from financial institutions and investors has been steadily growing over the past decade. In the wake of COVID-19, ESG became an increasingly important assessment for investors across the globe. JP Morgan reported that in over just the past year alone, assets in ESG ETFs doubled to more than \$80 billion. In short, investors have recently viewed ESG performance as a measure of a company's resiliency in the face of uncertainty.

In discussions with investors, Energy Recovery's team found some had completely shifted their perspective on the company or ESG at large. More traditional investors who had never broached the subject or had previously been hesitant to embrace ESG were asking the company about its ESG plans. Others announced that with the launch of their ESG program, they would be considering Energy Recovery for additional investment.

"We're able to show we're moving forward in a progressive way. We aren't just seen as water or an oil & gas company anymore," said Mr. Ballard. He added, "Our technology brings affordable access to critical resources. Now we can share that with investors here and abroad." "In many ways, ESG is another lens for risk management. ESG frameworks provide a means to measure a company's exposure to environmental, social and governance risks," said Mr. Siccardi. "When framed as a means to measure and mitigate risk, investors realized that an ESG program would make our business all the more resilient to unexpected events."

The program was received well by customers, too.

"We were surprised by the level of interest in our ESG program from our customers. Our sales team was thrilled to be able to share our first report with their customers. It further strengthened those business relationships," noted Ms. Vendeland.

## How will you build upon the great work that has already been done with Energy Recovery's existing ESG program in future years?

"This process focused our entire organization around the larger environmental picture. Moreover, this report creates hundreds of accountability partners for us," said Mr. Ballard.

Mr. Ballard continued to note, "I view the program as a valuable management tool and guide for strategy. As we really dove into it, it created a new way of thinking and talking for many – a shift in focus in decision making."

Energy Recovery's ESG program provided the company with greater clarity into their internal operations and processes. The program aligned the company's external brand with what Energy Recovery was already doing – or seeking to accomplish – internally. Looking forward, Energy Recovery's inaugural ESG report will serve as a benchmark both internally and externally to evaluate the business' progress, growth, and sustainability performance. With its ESG program as a guide, Energy Recovery is bound towards a stronger, sustainable, and more resilient future.

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