



SCI Engineered Materials

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The Science of Engineered Materials™

SCI Engineered Materials, Inc. Reports Fourth Quarter and Full-Year 2016 Results

COLUMBUS, Ohio (February 27, 2017) SCI Engineered Materials, Inc. ("SCI") (SCIA: OTCQB), a global supplier and manufacturer of advanced materials for physical vapor deposition thin film applications that works closely with end users and OEMs to develop innovative, customized solutions, today reported its financial results for the three months and twelve months ended December 31, 2016.

Dan Rooney, President and Chief Executive Officer, stated, "In 2016 we continued to generate positive cash flow from operations, reduced total debt outstanding by 20% and invested capital in our business despite volatility in SCI's markets. During the second half of the year several customers reduced inventory and shortened product delivery lead times. We responded proactively by reducing costs while continuing to position the Company for growth. We are cautiously optimistic that the improved fourth quarter sales of thin film solar products compared to the prior year will carry-over into 2017."

Mr. Rooney added, "We believe the inventory adjustments our customers implemented during the second half of 2016 have been largely completed. Bookings received thus far in 2017 are higher than total bookings for the second half of 2016."

Revenue

Revenue was \$1,219,324 for the fourth quarter of 2016 compared to \$1,627,408 for the same period last year and decreased 32% to \$5,465,599 for 2016 from \$8,048,635 in 2015. The revenue decline for each period in 2016 compared to the prior year was principally due to the pass-through of lower price and volume of a low margin commodity, plus a number of customers who reduced inventory and shortened delivery lead times.

Order backlog was \$0.8 million at December 31, 2016, versus \$1.9 million at year-end 2015, reflecting the impact of customers' destocking actions and shorter product delivery lead times. The Company has received solid bookings since year-end 2016.

Gross profit

Gross profit was \$167,469 for the fourth quarter of 2016 versus \$368,605 for the same period the prior year. Fourth quarter of 2016 gross profit margin was 13.7% compared to 22.6% the prior year principally due to lower revenue and change in product mix.

For the full-year 2016, gross profit decreased to \$1,084,401 from \$1,969,822 in 2015. The gross profit margin for 2016 decreased to 19.8% from 24.5% due to the same reasons noted above.

During 2016, the Company retroactively reclassified to January 1, 2015, a portion of rent expense from operating expenses (general and administrative) to cost of goods sold to accurately reflect an amount assigned to the manufacturing area of the Company's facility.

Operating expenses

Fourth quarter of 2016 operating expenses (general and administrative expense, marketing and sales expense and research and development expense) decreased approximately 26% to \$377,222 from \$511,508 for the same period in 2015. For the full-year 2016, operating expense decreased 15% to \$1,745,361 from \$2,062,421 in 2015. During the fourth quarter of 2016 the Company restructured the sales department and implemented cost-savings actions involving general and administrative expense that contributed to the reduction in year-over-year expenses. Completion of Company sponsored research at a university in the first quarter of 2016 resulted in a 31% decrease in research and development expense compared to the same period in 2015 and a 27% decrease for the full-year 2016 compared to the prior year.

Loss Applicable to Common Shares

The loss applicable to common shares was \$226,490 or \$0.06 per share for the fourth quarter of 2016 versus a loss of \$161,499 or \$0.04 per share the prior year. For the full-year 2016, the loss applicable to common stock was \$730,206 or \$0.18 per share compared to a loss of \$173,449 or \$0.04 a year ago. The results for both periods in 2016 compared to the prior year were attributable to lower revenue and gross profit.

EBITDA

EBITDA (earnings before interest, income taxes, depreciation and amortization) was negative \$94,827 for the fourth quarter of 2016 compared to negative EBITDA of \$31,965 for the same period of the prior year. EBITDA was negative \$205,630 for the full-year 2016 versus EBITDA of \$355,027 for 2015.

Adjusted EBITDA, which excludes non-cash stock based compensation, was negative \$80,217 for the fourth quarter of 2016 versus adjusted EBITDA of \$22,567 for the same period in 2015. For the full-year 2016, adjusted EBITDA was negative \$32,945 versus adjusted EBITDA of \$571,015 for the prior year.

Cash and Total Debt Outstanding

The Company continued to reduce total debt outstanding during 2016, which totaled approximately \$741,000 at year-end and was 20% below the same date of the prior year.

Cash provided by operating activities was \$160,555 for the full-year 2016 compared to \$502,584 for 2015. The Company also continued to invest maintenance capital through a new capital lease obligation of approximately \$145,000.

Cash on hand was \$730,352 at December 31, 2016, versus \$997,170 at year-end 2015.

About SCI Engineered Materials, Inc.

SCI Engineered Materials is a global supplier and manufacturer of advanced materials for PVD thin film applications that works closely with end users and OEMs to develop innovative, customized solutions. Additional information is available at

www.sciengineeredmaterials.com.

This press release contains certain 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, which are intended to be covered by the safe harbors created thereby. Those statements include, but are not limited to, all statements regarding intent, beliefs, expectations, projections, customer guidance, forecasts, and plans of the Company and its management, and specifically include statements concerning cautious optimism that improved fourth quarter sales of thin film solar products will carry-over into 2017 and the Company's belief that inventory adjustments the Company's customers' implemented during the second half of 2016 are largely completed. These forward-looking statements involve numerous risks and uncertainties, including, without limitation, other risks and uncertainties detailed from time to time in the Company's Securities and Exchange Commission filings, including the Company's Annual Report on Form 10-K for the year ended December 31, 2016. One or more of these factors have affected, and could in the future affect, the Company's projections. Therefore, there can be no assurances that the forward-looking statements included in this press release will prove to be accurate. In light of the significant uncertainties in the forward-looking statements included herein, the inclusion of such information should not be regarded as a representation by the Company, or any other persons, that the objectives and plans of the company will be achieved. All forward-looking statements made in this press release are based on information presently available to the management of the Company. The Company assumes no obligation to update any forward-looking statements.

SCI ENGINEERED MATERIALS, INC.

BALANCE SHEETS

ASSETS

	December 31, <u>2016</u>	December 31, <u>2015</u>
Current Assets		
Cash	\$ 730,352	\$ 997,170
Accounts receivable, less allowance for doubtful accounts	271,832	302,512
Inventories	376,561	573,114
Prepaid expenses	59,203	61,301
Total current assets	<u>1,437,948</u>	<u>1,934,097</u>
Property and Equipment, at cost	8,156,749	7,990,723
Less accumulated depreciation	<u>(6,019,844)</u>	<u>(5,642,619)</u>
	<u>2,136,905</u>	<u>2,348,104</u>
Other Assets	<u>50,620</u>	<u>51,422</u>
TOTAL ASSETS	<u>\$ 3,625,473</u>	<u>\$ 4,333,623</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities		
Short term debt	\$ 293,791	\$ 321,288
Accounts payable	151,757	191,475
Customer deposits	249,977	155,800
Accrued expenses	210,769	255,017
Total current liabilities	<u>906,294</u>	<u>923,580</u>
Long term debt	<u>447,049</u>	<u>608,744</u>
Total liabilities	1,353,343	1,532,324
Commitments and contingencies		
Total Shareholders' Equity	<u>2,272,130</u>	<u>2,801,299</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 3,625,473</u>	<u>\$ 4,333,623</u>

SCI ENGINEERED MATERIALS, INC.

STATEMENTS OF OPERATIONS

FOR THE THREE MONTHS AND TWELVE MONTHS ENDED DECEMBER 31, 2016 AND 2015

	THREE MONTHS ENDED DEC. 31,		TWELVE MONTHS ENDED DEC. 31,	
	2016	2015	2016	2015
Revenue	\$ 1,219,324	\$ 1,627,408	\$ 5,465,599	\$ 8,048,635
Cost of revenue	<u>1,051,855</u>	<u>1,258,803</u>	<u>4,381,198</u>	<u>6,078,813</u>
Gross profit	167,469	368,605	1,084,401	1,969,822
SG & A expense	299,485	398,605	1,425,885	1,623,754
Research and development expense	<u>77,737</u>	<u>112,903</u>	<u>319,476</u>	<u>438,667</u>
Loss from operations	(209,753)	(142,903)	(660,960)	(92,599)
Interest	<u>(10,699)</u>	<u>(12,558)</u>	<u>(45,051)</u>	<u>(56,698)</u>
Loss before income taxes	(220,452)	(155,461)	(706,011)	(149,297)
Income tax expense	<u>-</u>	<u>-</u>	<u>(43)</u>	<u>-</u>
Net loss	(220,452)	(155,461)	(706,054)	(149,297)
Dividends on preferred stock	<u>(6,038)</u>	<u>(6,038)</u>	<u>(24,152)</u>	<u>(24,152)</u>
LOSS APPLICABLE TO COMMON STOCK	\$ <u>(226,490)</u>	\$ <u>(161,499)</u>	\$ <u>(730,206)</u>	\$ <u>(173,449)</u>
Earnings per share - basic and diluted				
Loss per common share				
Basic	\$ <u>(0.06)</u>	\$ <u>(0.04)</u>	\$ <u>(0.18)</u>	\$ <u>(0.04)</u>
Diluted	\$ <u>(0.06)</u>	\$ <u>(0.04)</u>	\$ <u>(0.18)</u>	\$ <u>(0.04)</u>
Weighted average shares outstanding				
Basic	<u>4,079,925</u>	<u>4,008,878</u>	<u>4,052,128</u>	<u>3,980,670</u>
Diluted	<u>4,079,925</u>	<u>4,008,878</u>	<u>4,052,128</u>	<u>3,980,670</u>

SCI ENGINEERED MATERIALS, INC.

CONDENSED STATEMENTS OF CASH FLOWS

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
CASH PROVIDED BY (USED IN):		
Operating activities	\$ 160,555	\$ 502,584
Investing activities	(87,865)	(49,051)
Financing activities	<u>(339,508)</u>	<u>(468,319)</u>
NET DECREASE IN CASH	<u>(266,818)</u>	<u>(14,786)</u>
CASH - Beginning of period	<u>997,170</u>	<u>1,011,956</u>
CASH - End of period	<u>\$ 730,352</u>	<u>\$ 997,170</u>

RECONCILIATION OF GAAP TO NON-GAAP MEASURES

FOR THE THREE MONTHS AND TWELVE MONTHS ENDED DECEMBER 31, 2016 AND 2015

	Three months ended Dec. 31,		Twelve months ended Dec. 31,	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Net loss	\$ (220,452)	\$ (155,461)	\$ (706,054)	\$ (149,297)
Interest	10,699	12,558	45,051	56,698
Income taxes	-	-	43	-
Depreciation and amortization	114,926	110,938	455,330	447,626
EBITDA	<u>(94,827)</u>	<u>(31,965)</u>	<u>(205,630)</u>	<u>355,027</u>
Stock based compensation	14,610	54,532	172,685	215,988
Adjusted EBITDA	<u>\$ (80,217)</u>	<u>\$ 22,567</u>	<u>\$ (32,945)</u>	<u>\$ 571,015</u>