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The Science of Engineered Materials™

SCI Engineered Materials, Inc. Reports First Quarter 2017 Results

COLUMBUS, Ohio (May 4, 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 ended March 31, 2017.

Dan Rooney, President and Chief Executive Officer, said, "We are encouraged by the recovery in our business during the first three months of 2017 which included strong growth in backlog. Gross profit dollars and gross margin percentage achieved solid increases, while operating expenses were 24% below the same period last year. The decrease in operating expense was principally due to Company cost-savings and efficiency measures implemented during the second half of 2016."

Mr. Rooney added, "SCI's backlog of \$1.9 million at March 31, 2017, more than doubled since year-end 2016. This improvement was driven by follow-on orders from both photonics and solar customers. Bookings also remained strong during April 2017."

Revenue

Revenue was \$1,371,916 for the first three months of 2017 which was similar to the same period last year. Higher thin film solar revenue during the first quarter of 2017 offset lower sales to photonics customers.

Order backlog increased substantially during the first quarter of 2017 and was more than \$1 million higher than at December 31, 2016. The adverse impact of customers' destocking during the second half of 2016 has generally abated, although the Company

continues to experience shorter product delivery lead times from its thin film solar and photonics customers.

Gross profit

Gross profit dollars and gross profit margin for the first quarter 2017 increased 30% and 5.7 percentage points, respectively, compared to the same period in 2016. Gross profit increased to \$336,985 for the first three months of 2017 from \$259,610 a year ago. First quarter of 2017 gross profit margin increased to 24.6% from 18.9% the prior year, benefiting from product mix on flat revenue comparisons year-over-year.

Operating expenses

Operating expenses (general and administrative expense, marketing and sales expense and research and development expense) decreased 24% to \$365,939 for the first quarter of 2017 from \$478,814 the prior year. This substantial year-over-year decrease was attributable to actions the Company implemented during the fourth quarter of 2016 including restructuring the sales department and additional cost-savings measures particularly involving general and administrative expense.

Loss Applicable to Common Shares

For the first three months of 2017 the loss applicable to common shares was \$46,486 or \$0.01 per share compared to loss applicable to common shares of \$236,927 or \$0.06 per share for the same period a year ago. This improvement was attributable to the increase in gross profit dollars and lower operating expenses.

EBITDA

Earnings before interest, income taxes, depreciation and amortization (EBITDA) increased \$193,715 to \$87,585 for the first quarter of 2017 compared to a year ago.

Adjusted EBITDA, which excludes non-cash stock based compensation, increased to \$134,446 for the first three months of 2017 from adjusted EBITDA of \$(52,558) the prior year.

Cash and Total Debt Outstanding

Cash on hand increased 6% during the first three months of 2017 and was \$776,881 at quarter-end.

Cash provided by operating activities was \$136,170 for the first three months of 2017 compared to cash used in operating activities of \$26,365 for the same period a year ago.

The Company's total debt outstanding was approximately \$767,000 at March 31, 2017, versus approximately \$741,000 at year-end 2016. This increase was attributable to a new \$103,000 capital lease obligation for manufacturing equipment, which commenced in the first quarter of 2017.

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 includes a statement concerning bookings continued to be strong in April 2017. 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

	March 31, 2017	December 31, 2016
	(UNAUDITED)	
Current Assets		
Cash	\$ 776,881	\$ 730,352
Accounts receivable, less allowance for doubtful accounts	423,407	271,832
Inventories	565,273	376,561
Prepaid expenses	247,273	59,203
Total current assets	2,012,834	1,437,948
Property and Equipment, at cost	8,270,044	8,156,749
Less accumulated depreciation	(6,133,719)	(6,019,844)
	2,136,325	2,136,905
Other Assets	49,672	50,620
TOTAL ASSETS	\$ 4,198,831	\$ 3,625,473

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities		
Short term debt	\$ 347,540	\$ 293,791
Accounts payable	426,943	151,757
Customer deposits	565,684	249,977
Accrued expenses	160,807	210,769
Total current liabilities	1,500,974	906,294
Long term debt	419,314	447,049
Total liabilities	1,920,288	1,353,343
Commitments and contingencies		
Total Shareholders' Equity	2,278,543	2,272,130
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 4,198,831	\$ 3,625,473

SCI ENGINEERED MATERIALS, INC.

STATEMENTS OF OPERATIONS

FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016

(UNAUDITED)

	<u>2017</u>	<u>2016</u>
Revenue	\$ 1,371,916	\$ 1,374,812
Cost of revenue	<u>1,034,931</u>	<u>1,115,202</u>
Gross profit	336,985	259,610
S,G & A expense	283,327	398,738
Research and development expense	<u>82,612</u>	<u>80,076</u>
Loss from operations	(28,954)	(219,204)
Interest	<u>(11,494)</u>	<u>(11,685)</u>
Loss before provision for income taxes	(40,448)	(230,889)
Income tax expense	<u>-</u>	<u>-</u>
Net loss	(40,448)	(230,889)
Dividends on preferred stock	<u>(6,038)</u>	<u>(6,038)</u>
LOSS APPLICABLE TO COMMON SHARES	<u><u>\$ (46,486)</u></u>	<u><u>\$ (236,927)</u></u>
Earnings per share - basic and diluted		
Loss per common share		
Basic	<u><u>\$ (0.01)</u></u>	<u><u>\$ (0.06)</u></u>
Diluted	<u><u>\$ (0.01)</u></u>	<u><u>\$ (0.06)</u></u>
Weighted average shares outstanding		
Basic	<u><u>4,103,510</u></u>	<u><u>4,024,254</u></u>
Diluted	<u><u>4,103,510</u></u>	<u><u>4,024,254</u></u>

SCI ENGINEERED MATERIALS, INC.
CONDENSED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016

(UNAUDITED)

	<u>2017</u>	<u>2016</u>
CASH PROVIDED BY (USED IN):		
Operating activities	\$ 136,170	\$ (26,365)
Investing activities	(61,520)	(7,085)
Financing activities	(28,121)	(89,603)
NET INCREASE (DECREASE) IN CASH	<u>46,529</u>	<u>(123,053)</u>
CASH - Beginning of period	<u>730,352</u>	<u>997,170</u>
CASH - End of period	<u><u>\$ 776,881</u></u>	<u><u>\$ 874,117</u></u>

RECONCILIATION OF GAAP TO NON-GAAP MEASURES
FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016

(UNAUDITED)

	<u>2017</u>	<u>2016</u>
Net loss	\$ (40,448)	\$ (230,889)
Interest	11,494	11,685
Income taxes	-	-
Depreciation and amortization	116,539	113,074
EBITDA	<u>87,585</u>	<u>(106,130)</u>
Stock based compensation	46,861	53,572
Adjusted EBITDA	<u><u>\$ 134,446</u></u>	<u><u>\$ (52,558)</u></u>