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The Science of Engineered Materials™

## **SCI Engineered Materials, Inc. Reports Improved 2017 Year-to-Date and Third Quarter Results**

COLUMBUS, Ohio (November 2, 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 nine months and three months ended September 30, 2017.

Dan Rooney, President and Chief Executive Officer, said, “Our results for the first nine months and third quarter of 2017 benefitted from solid revenue growth and lower operating expenses versus the comparable periods last year. During the third quarter we further strengthened our balance sheet which benefitted from a solid increase in cash from operations and an 11% reduction in total debt outstanding compared to June 30, 2017.”

Mr. Rooney continued, “We have remained focused on increasing our customer base and pursuing long-term growth opportunities throughout 2017 while experiencing uneven order patterns. Sales are benefiting from orders that involve new and innovative applications based on our ongoing research and development activities and changes to our sales strategy that began in late 2016. These efforts are expected to contribute to incremental growth in 2018 although we anticipate that revenue and net income will be sequentially lower in the fourth quarter of 2017.”

Mr. Rooney added, “During the third quarter we received positive results from a joint project with Case Western Reserve University regarding their evaluation of test films using Zinc Magnesium Oxide. This innovative application offers an alternative material to potentially replace what is currently being used in portions of the thin film solar market.

We received an initial order for Zinc Magnesium Oxide targets and are actively marketing this application to a broader range of thin film solar customers.”

### *Revenue*

Revenue for the first nine months ended September 30, 2017 increased 24% to \$5,261,428 from \$4,246,275 for the same period in 2016. For the third quarter of 2017, revenue increased 19% to \$1,978,014 from \$1,664,979 a year ago. The increase for both periods in 2017 was attributable to pricing and product mix.

Order backlog was \$1.6 million at September 30, 2017, compared to \$1.2 million on the same date last year.

### *Gross profit*

Gross profit for the first nine months of 2017 increased 28% to \$1,170,751 from \$916,932 the prior year. Gross profit margin for the 2017 year-to-date period increased to 22.3% from 21.6% the prior year. The higher gross profit and gross profit margin for the first nine months of 2017 benefited from pricing and improved product mix. Gross profit of \$370,919 for the third quarter of 2017 was flat compared to the same period a year ago, while gross profit margin decreased to 18.8% for the third quarter of 2017 from 22.3% a year ago due to product mix.

### *Operating expenses*

Research and development expense was higher for the first nine months and third quarter of 2017 versus the same periods last year. Total operating expenses (general and administrative expense, marketing and sales expense and research and development expense) decreased 17% to \$1,134,217 for the first nine months of 2017 from \$1,368,139 for the same period in 2016. The year-over-year decrease was attributable to restructuring of the sales department in late 2016 plus additional cost cutting measures implemented during the second half of last year. Total operating expenses for the third quarter of 2017 decreased 11% to \$386,410 for the third quarter of 2017 from \$436,364 for the same period last year was attributable to the restructuring and cost reduction actions taken in 2016.

### *(Loss) Applicable to Common Shares*

Higher revenue and lower operating expenses were key factors in the improvement in the Company's financial results for both the 2017 year-to-date period and third quarter, respectively, compared to a year ago. There was a loss applicable to common shares of \$(14,594) or breakeven on a per share basis for the first nine months of 2017 versus a loss applicable to common shares of \$(503,716) or \$(0.12) per share in 2016. For the third quarter of 2017, the loss applicable to common shares was \$(31,391) or \$(0.01) per share compared to a loss applicable to common shares of \$(83,450) or \$(0.02) per share for the same period in 2016.

### *EBITDA*

Earnings before interest, income taxes, depreciation and amortization (EBITDA) increased \$498,504 for the first nine months of 2017 to \$387,701 from negative EBITDA of \$(110,803) for the same period in 2016. EBITDA for the third quarter of 2017 more than doubled to \$101,405 from \$48,787 a year ago.

For the 2017 year-to-date period, adjusted EBITDA, which excludes non-cash stock based compensation, increased tenfold to \$536,753 from \$47,272 the prior year. For the third quarter of 2017, adjusted EBITDA increased 50% to \$152,926 from \$101,759 a year ago.

### *Cash and Total Debt Outstanding*

Cash on hand was \$1,056,491 at September 30, 2017, a 45% increase from year-end 2016.

Cash provided by operating activities was \$642,872 for the 2017 year-to-date period versus \$128,563 for the same period last year.

The Company's total debt outstanding decreased 11% during the third quarter of 2017 and was \$611,313 at September 30, 2017, which is approximately 17% below year-end 2016.

*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](http://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 anticipation that revenue and income will be sequentially lower in the fourth quarter of 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

	<b>September 30,</b>	<b>December 31,</b>
	<b><u>2017</u></b>	<b><u>2016</u></b>
	(UNAUDITED)	
Current Assets		
Cash	\$ 1,056,491	\$ 730,352
Accounts receivable, less allowance for doubtful accounts	233,949	271,832
Inventories	869,265	376,561
Prepaid expenses	70,587	59,203
Total current assets	<u>2,230,292</u>	<u>1,437,948</u>
Property and Equipment, at cost	8,282,701	8,156,749
Less accumulated depreciation	<u>(6,308,844)</u>	<u>(6,019,844)</u>
	<u>1,973,857</u>	<u>2,136,905</u>
Other Assets	<u>49,672</u>	<u>50,620</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 4,253,821</u></b>	<b><u>\$ 3,625,473</u></b>

#### LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities		
Short term debt	\$ 315,486	\$ 293,791
Accounts payable	177,396	151,757
Customer deposits	868,193	249,977
Accrued expenses	172,217	210,769
Total current liabilities	<u>1,533,292</u>	<u>906,294</u>
Long term debt	<u>295,827</u>	<u>447,049</u>
Total liabilities	1,829,119	1,353,343
Commitments and contingencies		
Total Shareholders' Equity	<u>2,424,702</u>	<u>2,272,130</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b><u>\$ 4,253,821</u></b>	<b><u>\$ 3,625,473</u></b>

**SCI ENGINEERED MATERIALS, INC.**

**STATEMENT OF OPERATIONS**

**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016  
(UNAUDITED)**

	<b>THREE MONTHS ENDED SEPT. 30,</b>		<b>NINE MONTHS ENDED SEPT. 30,</b>	
	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>2017</u></b>	<b><u>2016</u></b>
Revenue	\$ 1,978,014	\$ 1,664,979	\$ 5,261,428	\$ 4,246,275
Cost of revenue	1,607,095	1,294,516	4,090,677	3,329,343
Gross profit	370,919	370,463	1,170,151	916,932
SG&A expense	295,483	349,118	881,503	1,126,400
Research & Development expense	90,927	87,246	252,714	241,739
(Loss) income from operations	(15,491)	(65,901)	36,534	(451,207)
Interest	9,862	11,511	32,066	34,352
(Loss) income before provision for income taxes	(25,353)	(77,412)	4,468	(485,559)
Income tax expense	-	-	948	43
Net (loss) income	(25,353)	(77,412)	3,520	(485,602)
Dividends on preferred stock	6,038	6,038	18,114	18,114
<b>LOSS APPLICABLE TO COMMON SHARES</b>	<b>\$ (31,391)</b>	<b>\$ (83,450)</b>	<b>\$ (14,594)</b>	<b>\$ (503,716)</b>
Earnings per share - basic and diluted				
Loss per common share				
Basic	\$ (0.01)	\$ (0.02)	\$ (0.00)	\$ (0.12)
Diluted	\$ (0.01)	\$ (0.02)	\$ (0.00)	\$ (0.12)
Weighted average shares outstanding				
Basic	4,149,537	4,061,374	4,126,478	4,042,199
Diluted	4,149,537	4,061,374	4,126,478	4,042,199

**SCI ENGINEERED MATERIALS, INC.**

**CONDENSED STATEMENTS OF CASH FLOWS**

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016**

	<b>2017</b>	<b>2016</b>
<b>CASH PROVIDED BY (USED IN):</b>		
Operating activities	\$ 642,872	\$ 128,563
Investing activities	(76,577)	(79,803)
Financing activities	(240,156)	(265,092)
<b>NET INCREASE (DECREASE) IN CASH</b>	326,139	(216,332)
<b>CASH - Beginning of period</b>	730,352	977,170
<b>CASH - End of period</b>	\$ 1,056,491	\$ 780,838

**RECONCILIATION OF GAAP TO NON-GAAP MEASURES**

**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016**

	<b>Three months ended Sept. 30,</b>		<b>Nine months ended Sept. 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Net (loss) income	\$ (25,353)	\$ (77,412)	\$ 3,520	\$ (485,602)
Interest	9,862	11,511	32,066	34,352
Income taxes	-	-	948	43
Depreciation and amortization	116,896	114,688	351,167	340,404
<b>EBITDA</b>	101,405	48,787	387,701	(110,803)
Stock based compensation	51,521	52,972	149,052	158,075
<b>Adjusted EBITDA</b>	\$ 152,926	\$ 101,759	\$ 536,753	\$ 47,272