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The Science of Engineered Materials™

SCI Engineered Materials, Inc. Reports 2019 Full-Year and Fourth Quarter Results

COLUMBUS, Ohio (February 5, 2020) SCI Engineered Materials, Inc. (“SCI”) (SCIA: OTCQB), a global supplier and manufacturer of advanced materials for physical vapor deposition thin film applications who works closely with end users and OEMs to develop innovative, customized solutions, today reported results for the full-year and three months ended December 31, 2019.

Mr. Jeremy Young, President and Chief Executive Officer, said, “We realized solid progress in key areas of our photonics business during the past year despite challenging conditions in the global thin film solar market. Key achievements included record revenue of nearly \$13.0 million, increased presence in additional niche markets, lower operating expenses and completion of a smooth executive management transition. We are pursuing opportunities to increase the Company’s market penetration and further diversify our foundation for future growth as we build upon our legacy business and solid increase in customers this past year.”

Mr. Young continued, “We were disappointed in 2019 that increased volatility in the global solar market, including disruptive factors that affected customer behavior, contributed to a significant decline in order rates for our thin film solar products. The Company anticipates another profitable year in 2020 based on factors we can control, which are primarily focused on increased sales to our growing base of photonics customers and other niche markets.”

Mrs. Laura Shunk, Chairman of the Board, stated, “The Board is pleased with the progress Mr. Young has demonstrated in transitioning to his role as President and CEO,

including his active exploration of new growth strategies and disciplined operational oversight.”

Revenue

Revenue rose 14% to a record \$12,950,387 for the twelve months ended December 31, 2019. The Company added new customers in 2019, achieved increased volume for its photonics products, and benefited from higher pricing related to the pass-through of higher costs of a key raw material. Partially offsetting these favorable factors was a substantial decline in thin film solar product revenue due to external factors that adversely impacted order rates and shipments during most of 2019.

For the three months ended December 31, 2019, higher revenue from photonics sales was offset by significantly lower thin film solar sales compared to the prior year. Fourth quarter total revenue decreased 32% to \$2,938,200 from \$4,318,331 for the same period in 2018.

Order backlog of \$5.8 million at December 31, 2019, was unchanged from the amount at September 30, 2019. The Company is benefitting from new customer orders and solid growth from existing customers.

Gross profit

Gross profit for the full-year and fourth quarter of 2019 declined compared to the same periods in 2018. This was due to product mix and lower volume of thin film solar sales versus the same periods in 2018. Gross profit decreased 24% to \$2,208,563 for 2019 from \$2,904,776 in 2018, while gross profit for the fourth quarter of 2019 declined 64% to \$359,072 from \$987,351 for the same period a year ago.

Operating expenses

Operating expenses (general and administrative expense, research and development expense, and marketing and sales expense) for the full-year and fourth quarter of 2019 decreased compared to the comparable periods in 2018. Full-year 2019 operating

expenses decreased 5% to \$1,877,705 from 2018 due to lower marketing and sales expenses. This was principally due to lower compensation and commission expense.

Operating expenses for the fourth quarter of 2019 were \$435,186 or 29% below the same period in 2018. General and administrative expense declined 27% versus a year ago primarily due to completion of the executive management transition in June 2019 and lower travel expenses. The 52% decline in marketing and sales expense was attributable to the change in allocation of compensation expense previously noted and lower commission expense.

Income (Loss) Applicable to Common Shares

Income applicable to common shares was \$281,199, or \$0.06 per common share, for 2019 compared to \$883,717, or \$0.21 per common share, the prior year. The year-over-year decrease was attributable to lower gross profit.

The Company's loss applicable to common shares was \$(84,779), or \$(0.02) per share, for the 2019 fourth quarter versus income applicable to common shares of \$359,458, or \$0.08 per share, for the same period in 2018. The fourth quarter 2018 results benefited from significantly higher revenue attributable to increased thin film solar sales.

*EBITDA**

Earnings before interest, income taxes, depreciation and amortization (EBITDA) was \$833,531 for the twelve months ended December 31, 2019, versus \$1,387,810 for 2018. Adjusted EBITDA, which excludes non-cash stock-based compensation, was \$963,540 for 2019 compared to \$1,537,209 the previous year.

EBITDA was \$56,453 for the three months ended December 31, 2019 and \$477,106 for the same period in 2018. Adjusted EBITDA for the fourth quarter of 2019 and 2018 was \$88,161 and \$542,545, respectively.

Cash and Total Debt Outstanding

The Company had \$1,828,397 of cash at December 31, 2019, compared to \$1,802,839 at 2018 year-end.

Cash utilized for investments in the Company's business were approximately \$380,000 for 2019 and 2018. In addition to acquisition of equipment during both years, the Company installed an in-plant office structured mezzanine to enhance space utilization in its facility during the second half of 2019.

Net cash provided by operating activities decreased to \$532,207 for 2019 from \$1,653,087 for 2018. The year-over-year decrease was principally due to lower net income, accrued expenses and customer deposits in 2019 versus 2018.

Total debt outstanding was \$223,835 at December 31, 2019, compared to \$262,731 on the same date of the prior year, a decrease of approximately 15%. New finance lease obligations were \$78,950 and \$105,325 for the year 2019 and 2018, respectively.

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 user and OEMs to develop innovative, customized solutions. Additional information is available at

www.sciengineeredmaterials.com or follow SCI Engineered Materials, Inc. at:

<https://www.linkedin.com/company/sci-engineered-materials.-inc>

<https://www.facebook.com/sciengineeredmaterials/>

*A reconciliation of the differences between the GAAP and non-GAAP financial measure of EBITDA as used in this release with the most directly comparable GAAP financial measures is included in the financial schedules that are a part of this release. This non-GAAP financial measure is intended to supplement and should be read together with our financial results. It should not be considered an alternative or substitute for, and should not be considered superior to, our reported financial results. Accordingly, users of this financial information should not place undue reliance on this non-GAAP financial measure.

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, and forecasts. 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, 2019. 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. Considering 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>2019</u>	December 31, <u>2018</u>
Current Assets		
Cash	\$ 1,828,397	\$ 1,802,839
Accounts receivable, less allowance for doubtful accounts	348,524	477,932
Inventories	2,749,038	2,752,845
Prepaid expenses	105,464	613,425
Total current assets	5,031,423	5,647,041
Property and Equipment, at cost	8,989,157	8,643,752
Less accumulated depreciation	(7,036,955)	(6,720,847)
	1,952,202	1,922,905
Right of use asset, net	434,492	-
Other assets	86,958	75,613
	521,450	75,613
TOTAL ASSETS	\$ 7,505,075	\$ 7,645,559

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities		
Finance lease obligations	\$ 98,524	\$ 114,853
Operating lease obligations	80,669	-
Accounts payable	254,004	321,348
Customer deposits	2,408,837	3,202,447
Accrued expenses	197,061	336,357
Total current liabilities	3,039,095	3,975,005
Finance lease obligations, net of current portion	125,311	147,878
Operating lease obligations, net of current portion	391,833	-
Total liabilities	3,556,239	4,122,883
 Total Shareholders' Equity	 3,948,836	 3,522,676
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 7,505,075	\$ 7,645,559

SCI ENGINEERED MATERIALS, INC.
STATEMENT OF OPERATIONS

FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2019 AND 2018

	THREE MONTHS ENDED DEC. 31,		TWELVE MONTHS ENDED DEC. 31,	
	2019	2018	2019	2018
Revenue	\$ 2,938,200	\$ 4,318,331	\$ 12,950,387	\$ 11,361,575
Cost of revenue	2,579,128	3,330,980	10,741,824	8,456,799
Gross profit	359,072	987,351	2,208,563	2,904,776
General and administrative	304,538	416,607	1,261,958	1,256,778
Research and development	82,820	99,950	366,492	351,999
Marketing and sales	47,828	100,327	249,255	361,132
(Loss) income from operations	(76,114)	370,467	330,858	934,867
Interest expense (income)	4,448	(1,593)	22,468	9,356
(Loss) income before provision for income taxes	(80,562)	372,060	308,390	925,511
Income tax	(1,821)	6,564	3,039	17,642
Net (loss) income	(78,741)	365,496	305,351	907,869
Dividends on preferred stock	6,038	6,038	24,152	24,152
(LOSS) INCOME APPLICABLE TO COMMON SHARES	\$ (84,779)	\$ 359,458	\$ 281,199	\$ 883,717
Earnings per share - basic and diluted				
(Loss) income per common share				
Basic	\$ (0.02)	\$ 0.08	\$ 0.06	\$ 0.21
Diluted	\$ (0.02)	\$ 0.08	\$ 0.06	\$ 0.21
Weighted average shares outstanding				
Basic	4,359,349	4,251,436	4,328,210	4,223,865
Diluted	4,359,349	4,320,799	4,362,327	4,257,131

SCI ENGINEERED MATERIALS, INC.

**CONDENSED STATEMENTS OF CASH FLOWS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
CASH PROVIDED BY (USED IN):		
Operating activities	\$ 532,207	\$ 1,653,087
Investing activities	(379,603)	(380,933)
Financing activities	<u>(127,046)</u>	<u>(390,117)</u>
NET INCREASE IN CASH	25,558	882,037
CASH - Beginning of period	<u>1,802,839</u>	<u>920,802</u>
CASH - End of period	<u>\$ 1,828,397</u>	<u>\$ 1,802,839</u>

**RECONCILIATION OF GAAP TO NON-GAAP MEASURES
FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2019 AND 2018**

	Three months ended Dec. 31,		Twelve months ended Dec. 31,	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Net (loss) income	\$ (78,741)	\$ 365,496	\$ 305,351	\$ 907,869
Interest expense (income)	4,448	(1,593)	22,468	9,356
Income taxes (benefit) expense	(1,821)	6,565	3,039	17,642
Depreciation and amortization	<u>132,567</u>	<u>106,638</u>	<u>502,673</u>	<u>452,943</u>
EBITDA	56,453	477,106	833,531	1,387,810
Stock based compensation	<u>31,708</u>	<u>65,439</u>	<u>130,009</u>	<u>149,399</u>
Adjusted EBITDA	<u>\$ 88,161</u>	<u>\$ 542,545</u>	<u>\$ 963,540</u>	<u>\$ 1,537,209</u>