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The Science of Engineered Materials™

SCI Engineered Materials, Inc. Reports Record Twelve Month and Fourth Quarter 2018 Results

COLUMBUS, Ohio (February 5, 2019) 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 record net income for the twelve months and three months ended December 31, 2018. Revenue increased 67% to \$11,361,575 for 2018 versus the prior year and income applicable to common shares increased to a record \$883,717 from a loss of \$18,061 in 2017.

Dan Rooney, Chairman and Chief Executive Officer, stated, “Our record results for 2018 were driven by a significant increase in shipments of thin film solar products and solid growth in our photonics business. In response to this sharp rise in demand, we worked diligently to increase our manufacturing output, which benefited gross profit and better positions us to scale our operations going forward. There were four consecutive quarters of profitability during 2018 and we ended the year with exceptional fourth quarter results. Our improved performance also enabled us to further strengthen our balance sheet including a 51% reduction in debt outstanding compared to year-end 2017.”

Mr. Rooney added, “This past December we announced the election of Jeremy Young as President of SCI effective January 2, 2019. He has worked for the Company since 2006 and has successfully assumed increasing levels of responsibility during the past 13 years. The transition period we announced in May 2018 is underway and will continue through mid-year 2019. We look forward to building on our 2018 accomplishments in 2019 and achieving another year of record revenue.”

Jeremy Young, President, commented, “There is increased optimism that global market conditions for thin film solar, especially for Cadmium Indium Gallium Selenide (CIGS) applications, are improving. These industry expectations bode well for SCI’s products. Recent additions of thin film solar customers include a number of larger and better funded companies than in the past. Their significant growth plans are supported by recent manufacturing installations coming on line and announcements of new projects. These factors strengthen our overall outlook for 2019.”

Mr. Young continued, “The bonding agreement we signed with Konfoong Materials International Co., LTD (KFMI) this past December involves a number of benefits for SCI, the most significant ones being opportunities to substantially increase our market presence and competitiveness in China. This bonding facility will utilize SCI’s products manufactured in Columbus, Ohio and is anticipated to begin operating by mid-year 2019. Additionally, we will continue to bond products for our photonics and thin film solar customers in areas other than China in our Ohio facility.”

Revenue

The Company achieved record revenue for the full-year and fourth quarter of 2018. Volume of thin film solar shipments increased significantly during both periods in 2018, versus a year ago, while the volume and pricing of our photonics shipments also increased year-over-year. Revenue for the twelve months ended December 31, 2018, increased 67% to \$11,361,575 compared to \$6,801,365 the prior year. For the fourth quarter of 2018, revenue was \$4,318,331 or 180% above the same period in 2017.

Order backlog was \$6.6 million at December 31, 2018, compared to \$1.9 million on the same date in 2017.

Gross profit

Gross profit benefited from the significant increase in revenue and improved product mix for the full-year and fourth quarter of 2018. It increased 84% to \$2,904,776 for the twelve months ended December 31, 2018, compared to \$1,577,551 the prior year. Fourth quarter 2018 gross profit increased 143% to \$987,351 from \$406,800 for the same period in 2017.

Operating expenses

Consistent with implementation of SCI's growth strategy, operating expenses (general and administrative expense, marketing and sales expense and research and development expense), increased for the twelve months and three months ended December 31, 2018 versus the same periods in 2017 in response to SCI's sharp increase in revenue.

Of the total operating expense of \$1,969,909 in 2018, general and administrative expense increased \$235,623 or 23%, primarily due to higher wages and incentive-based compensation. The comparative amount in 2017 was lower due to cost cutting measures implemented during the second half of 2016. Marketing and sales expense for 2018 increased \$184,662 or 105% to \$361,132 principally due to higher performance-based wages and benefits. Research and development expense increased 6% to \$351,999 for the full-year 2018, which was principally due to additional staff plus higher compensation and benefits.

Operating expense for the fourth quarter of 2018 increased 56% to \$616,884 compared to \$394,213 for the same period in 2017. This year-over-year increase was due to similar factors that influenced full-year 2018 operating expenses.

*EBITDA**

For the twelve months ended December 31, 2018, earnings before interest, income taxes, depreciation and amortization (EBITDA), particularly benefited from significantly higher net income and increased 167% to \$1,387,810 from \$519,197 the prior year. Adjusted EBITDA, which excludes non-cash stock based compensation, increased to \$1,537,209 for the full-year 2018, from \$720,771 in 2017.

For the fourth quarter of 2018, EBITDA increased 269% to \$477,106 from \$129,136 for the same period in 2017. Adjusted EBITDA increased 199% to \$542,545 for the fourth quarter of 2018 from \$181,658 in 2017.

Income/Loss Applicable to Common Stock

As a result of the significant increases in revenue and gross profit for the twelve months and three months ended December 31, 2018, income applicable to common stock was \$883,717 and \$359,458, respectively, versus a loss applicable to common stock of \$18,061 and \$3,467 for the comparable periods in the prior year.

Cash and Total Debt Outstanding

At December 31, 2018, cash on hand was \$1,802,839, or nearly double the year-end 2017 amount of \$920,802. This year-over-year increase was due to higher cash from operations and increased customer deposits that are primarily related to orders expected to be shipped during the first half of 2019.

Net cash provided by operating activities was \$1,653,087 for the full-year 2018 compared to \$615,959 the prior year.

Total debt outstanding was \$262,731 at year-end 2018, a decrease of 51% from the same date in 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 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, forecasts, and plans of the Company and its management, and specifically includes belief that 2019 will be another year of record revenue, the Company will be better positioned to scale operations going forward, current industry expectations bode well for SCI's products, customers' significant growth plans are supported by recent manufacturing installations coming on line and announcements of new projects, opportunities to substantially increase SCI's market presence and competitiveness in China, and the new bonding facility in China is anticipated to begin operating by mid-year 2019. 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, 2018. 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,	December 31,
	<u>2018</u>	<u>2017</u>
Current Assets		
Cash	\$ 1,802,839	\$ 920,802
Accounts receivable, less allowance for doubtful accounts	477,932	336,009
Inventories	2,752,845	617,444
Prepaid expenses	613,425	138,175
Total current assets	<u>5,647,041</u>	<u>2,012,430</u>
Property and equipment, at cost	8,643,752	8,307,514
Less accumulated depreciation	<u>(6,720,847)</u>	<u>(6,422,448)</u>
	<u>1,922,905</u>	<u>1,885,066</u>
Other Assets	<u>75,613</u>	<u>52,078</u>
TOTAL ASSETS	<u><u>\$ 7,645,559</u></u>	<u><u>\$ 3,949,574</u></u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities		
Short term debt	\$ 114,853	\$ 350,605
Accounts payable	321,348	307,498
Customer deposits	3,202,447	407,956
Accrued expenses	336,357	221,976
Total current liabilities	<u>3,975,005</u>	<u>1,288,035</u>
Long term debt	<u>147,878</u>	<u>181,744</u>
Total liabilities	4,122,883	1,469,779
Total Shareholders' Equity	<u>3,522,676</u>	<u>2,479,795</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u><u>\$ 7,645,559</u></u>	<u><u>\$ 3,949,574</u></u>

SCI ENGINEERED MATERIALS, INC.
STATEMENTS OF OPERATIONS

**FOR THE THREE AND TWELVE MONTHS
ENDED DECEMBER 31, 2018 AND 2017**

	THREE MONTHS ENDED DEC. 31,		TWELVE MONTHS ENDED DEC. 31,	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Revenue	\$ 4,318,331	\$ 1,539,937	\$ 11,361,575	\$ 6,801,365
Cost of revenue	<u>3,330,980</u>	<u>1,133,137</u>	<u>8,456,799</u>	<u>5,223,814</u>
Gross profit	987,351	406,800	2,904,776	1,577,551
SG&A expense	516,934	316,122	1,617,910	1,197,625
Research & Development expense	<u>99,950</u>	<u>78,091</u>	<u>351,999</u>	<u>330,805</u>
Income from operations	370,467	12,587	934,867	49,121
Interest income (expense)	<u>1,593</u>	<u>(9,043)</u>	<u>(9,356)</u>	<u>(41,109)</u>
Income before provision for income taxes	372,060	3,544	925,511	8,012
Income tax	<u>6,564</u>	<u>973</u>	<u>17,642</u>	<u>1,921</u>
Net income	365,496	2,571	907,869	6,091
Dividends on preferred stock	<u>6,038</u>	<u>6,038</u>	<u>24,152</u>	<u>24,152</u>
INCOME (LOSS) APPLICABLE TO COMMON SHARES	<u>\$ 359,458</u>	<u>\$ (3,467)</u>	<u>\$ 883,717</u>	<u>\$ (18,061)</u>
Earnings per share - basic and diluted				
Income (loss) per common share				
Basic	<u>\$ 0.08</u>	<u>\$ (0.00)</u>	<u>\$ 0.21</u>	<u>\$ (0.00)</u>
Diluted	<u>\$ 0.08</u>	<u>\$ (0.00)</u>	<u>\$ 0.21</u>	<u>\$ (0.00)</u>
Weighted average shares outstanding				
Basic	<u>4,251,436</u>	<u>4,174,537</u>	<u>4,223,865</u>	<u>4,138,516</u>
Diluted	<u>4,320,799</u>	<u>4,174,537</u>	<u>4,257,131</u>	<u>4,138,516</u>

SCI ENGINEERED MATERIALS, INC.
CONDENSED STATEMENTS OF CASH FLOWS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
CASH PROVIDED BY (USED IN):		
Operating activities	\$ 1,653,087	\$ 615,959
Investing activities	(380,933)	(104,029)
Financing activities	(390,117)	(321,480)
NET INCREASE IN CASH	882,037	190,450
CASH - Beginning of period	920,802	730,352
CASH - End of period	\$ 1,802,839	\$ 920,802

SCI ENGINEERED MATERIALS, INC.
RECONCILIATION OF GAAP TO NON-GAAP MEASURES

FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2018 AND 2017

	Three months ended Dec. 31,		Twelve months ended Dec. 31,	
	2018	2017	2018	2017
Net income	\$ 365,496	\$ 2,571	\$ 907,869	\$ 6,091
Interest (income) expense	(1,593)	9,043	9,356	41,109
Income taxes	6,565	973	17,642	1,921
Depreciation and amortization	106,638	116,549	452,943	470,076
EBITDA	477,106	129,136	1,387,810	519,197
Stock based compensation	65,439	52,522	149,399	201,574
Adjusted EBITDA	\$ 542,545	\$ 181,658	\$ 1,537,209	\$ 720,771