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The Science of Engineered Materials™

SCI Engineered Materials, Inc. Reports Improved First Quarter 2019 Results

COLUMBUS, Ohio (April 30, 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 revenue and income applicable to common shares each more than doubled to \$4,015,038 and \$149,304, respectively, for the three months ended March 31, 2019, compared to the same period last year.

Dan Rooney, Chairman and Chief Executive Officer, stated, “Our first quarter 2019 financial results benefited from a 117% increase in revenue and a 110% increase in income applicable to common shares versus a year ago. Order backlog at March 31, 2019, was more than 75% above the same date in 2018. Looking forward, we are encouraged by acceleration in the global megatrend of alternative energy being adopted by nations, states, cities, businesses and consumers. They are embracing these forms of energy which are now competitive in many areas with established fossil-fuel alternatives.”

Mr. Rooney added, “This is my final quarterly report as I transition into retirement in June. Throughout my 17-year tenure as Chief Executive Officer of SCI we pursued development of profitable long-term growth opportunities in niche markets that would leverage our manufacturing capabilities and materials expertise. Substantial progress has been achieved and much more is underway. The Company is poised for significant growth and increased profitability. While the journey has not always been smooth, we have consistently directed our efforts toward being a company that seeks to reward its shareholders for their investment and confidence in SCI.”

Jeremy Young, President, said, “Favorable demand trends in the photonics and thin film solar markets are being principally driven by innovation and increased market share, which is resulting in annual growth rates well above most industries. We are well-positioned to benefit from further growth in these markets while simultaneously seeking ways to further enhance our position by maintaining close contact with our customers, increasing our product offerings and implementing additional marketing initiatives.”

Revenue

First quarter 2019 revenue increased 117% to \$4,015,038 from \$1,846,858 for the same period in 2018. Higher volume and pricing for photonic products shipped during the first quarter 2019 were key factors in the comparative increase to a year ago. Order backlog was \$6.4 million at March 31, 2019, compared to \$3.6 million on the same date in 2018.

Gross profit

Gross profit increased 51% to \$696,302 for the first quarter 2019 versus a year ago. First quarter 2019 gross profit margin was lower than a year ago primarily due to product mix related to previously disclosed orders involving relatively low margin business and may continue to be influenced by higher costs for a certain raw material.

Operating expenses

Operating expenses (general and administrative expense, marketing and sales expense and research and development expense), were \$537,288 for the first three months of 2019 compared to \$373,799 the prior year. The year-over-year increase was principally due to higher compensation expenses, including items related to the Company’s management transition, and additional research and development (R&D) expense. General and administrative expense is expected to decline during the second half of 2019 following completion of the management transition during the second quarter. R&D expense increased 65% in first quarter 2019 versus a year ago due to higher staff levels and ongoing initiatives.

*EBITDA**

Earnings before interest, income taxes, depreciation and amortization (EBITDA) increased 29% to \$268,838 for the first quarter 2019 specifically benefiting from improved gross profit compared to a year ago.

Income Applicable to Common Stock

Strong growth in revenue and gross profit dollars for the first quarter 2019 compared to the same period last year contributed to a 110% increase in income applicable to common stock, which was \$149,304 compared to \$71,199 last year. Fully diluted income per share was \$0.03 for the first quarter 2019, the highest first quarter amount since 2010, versus \$0.02 last year.

Cash and Total Debt Outstanding

Cash on hand at March 31, 2019, was \$1,499,660 compared to \$1,802,839 at 2018 year-end. Net cash used in operating activities was \$71,779 for the first quarter 2019 versus net cash provided by operating activities of \$1,280,180 a year ago. Accrued expenses and customer deposits decreased approximately \$358,000 for the first quarter 2019 compared to an increase of approximately \$1,178,000 for the same period last year.

Total debt outstanding was \$223,830 at March 31, 2019, which was 15% below 2018 year-end and was 57% below the amount on the same date last year.

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, the Company is well-positioned to benefit from long-term growth in the photonics and thin film solar markets while simultaneously seeking ways to further enhance the Company's position through product and marketing initiatives, and general and administrative expense is expected to decline from the first quarter 2019 amount following completion of the management transition. 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. Due to 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, <u>2019</u>	December 31, <u>2018</u>
	(UNAUDITED)	
Current Assets		
Cash	\$ 1,499,660	\$ 1,802,839
Accounts receivable, less allowance for doubtful accounts	686,857	477,932
Note Receivable	7,477	-
Inventories	3,209,259	2,752,845
Prepaid expenses	88,990	613,425
Total current assets	<u>5,492,243</u>	<u>5,647,041</u>
Property and Equipment, at cost	9,338,420	8,643,752
Less accumulated depreciation	<u>(6,828,121)</u>	<u>(6,720,847)</u>
	<u>2,510,299</u>	<u>1,922,905</u>
Other Assets	<u>76,827</u>	<u>75,613</u>
TOTAL ASSETS	<u>\$ 8,079,369</u>	<u>\$ 7,645,559</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities		
Short term debt	\$ 95,568	\$ 114,853
Operating lease, current	74,760	-
Accounts payable	419,211	321,348
Customer deposits	3,035,201	3,202,447
Accrued expenses	146,278	336,357
Total current liabilities	<u>3,771,018</u>	<u>3,975,005</u>
Long term debt	128,262	147,878
Operating lease, long term	<u>452,959</u>	<u>-</u>
Total liabilities	<u>4,352,239</u>	<u>4,122,883</u>
Total Shareholders' Equity	<u>3,727,130</u>	<u>3,522,676</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 8,079,369</u>	<u>\$ 7,645,559</u>

SCI ENGINEERED MATERIALS, INC.

STATEMENTS OF OPERATIONS

FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018

(UNAUDITED)

	<u>2019</u>	<u>2018</u>
Revenue	\$ 4,015,038	\$ 1,846,858
Cost of revenue	<u>3,318,736</u>	<u>1,384,846</u>
Gross profit	696,302	462,012
General and administrative expense	359,800	247,168
Research and development expense	108,869	65,839
Marketing and sales expense	<u>68,619</u>	<u>60,792</u>
Income from operations	159,014	88,213
Interest, net	<u>1,188</u>	<u>(7,728)</u>
Income before provision for income taxes	160,202	80,485
Income tax expense	<u>4,860</u>	<u>3,248</u>
Net income	155,342	77,237
Dividends on preferred stock	<u>6,038</u>	<u>6,038</u>
INCOME APPLICABLE TO COMMON SHARES	<u>\$ 149,304</u>	<u>\$ 71,199</u>
Earnings per share - basic and diluted		
Income per common share		
Basic	<u>\$ 0.03</u>	<u>\$ 0.02</u>
Diluted	<u>\$ 0.03</u>	<u>\$ 0.02</u>
Weighted average shares outstanding		
Basic	<u>4,295,417</u>	<u>4,196,512</u>
Diluted	<u>4,350,377</u>	<u>4,205,638</u>

SCI ENGINEERED MATERIALS, INC.

CONDENSED STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018

(UNAUDITED)

	2019	2018
CASH (USED IN) PROVIDED BY:		
Operating activities	\$ (71,779)	\$ 1,280,180
Investing activities	(207,451)	(104,737)
Financing activities	(23,949)	(119,790)
NET (DECREASE) INCREASE IN CASH	(303,179)	1,055,653
CASH - Beginning of period	1,802,839	920,802
CASH - End of period	\$ 1,499,660	\$ 1,976,455

RECONCILIATION OF GAAP TO NON-GAAP MEASURES

FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018

(UNAUDITED)

	2019	2018
Net income	\$ 155,342	\$ 77,237
Interest	(1,188)	7,728
Income taxes	4,860	3,248
Depreciation and amortization	109,824	120,357
EBITDA	\$ 268,838	\$ 208,570