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The Science of Engineered Materials™

SCI Engineered Materials, Inc. Reports Improved 2017 Full-Year and Fourth Quarter Results

COLUMBUS, Ohio (February 1, 2018) 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 twelve months and three months ended December 31, 2017.

Dan Rooney, President & CEO, said, "The positive 2017 results can be attributed to changes in the strategy we implemented during in the second half of 2016. These achievements included a 24% increase in revenue, a 45% increase in gross profit and a 12% decrease in operating expenses compared to 2016; resulting in net income of \$6,091 compared to a net loss of \$(706,054) in 2016. EBITDA* for the year 2017 was more than \$519,000, the highest annual amount since 2010."

Mr. Rooney added, "Our sales and marketing strategies are focused on serving SCI's customers' needs and also making them aware of the Company's breadth of manufacturing and product capabilities. We added more than a dozen customers in 2017 which included initial sales to companies serving segments of the global photonics market. SCI's 2017 year-end backlog of \$1.9 million more than doubled compared to a year ago and underscores our progress.

We continued to improve our balance sheet during 2017, which included a 26% increase in year-end cash on hand and a 28% reduction in debt outstanding compared to 2016 year-end. We are building on the achievements of 2017 by continuing to pursue our strategy of establishing new and expanded customer relationships, accelerating time-to-market for new materials and applications, and further enhancing our financial strength."

Revenue

Increased sales of solar products, pricing, and product mix benefited revenue for the twelve months ended December 31, 2017. Revenue increased 24% to \$6,801,365 for 2017, an increase of \$1,335,766 from the prior year. Fourth quarter 2017 revenue was \$1,539,937 or 26% above the same period a year ago.

Order backlog more than doubled to \$1.9 million at December 31, 2017, compared to \$0.8 million on the same date in 2016.

Gross profit

Gross profit for the full-year 2017 increased 45% to \$1,577,551 principally due to product mix. Gross margin for 2017 increased to 23.2% from 19.8% a year ago. For the fourth quarter 2017, gross profit was \$406,800 or 143% above a year ago. The Company's fourth quarter 2017 gross margin was 26.4% compared to 13.7% for the comparable period in 2016.

Operating expenses

Operating expenses (general and administrative expense, marketing and sales expense and research and development expense) decreased 12% to \$1,528,430 for 2017 from \$1,745,361 a year ago. This decrease was due to changes the Company implemented in its sales and marketing strategies beginning in the third quarter 2016 combined with specific cost-cutting actions taken to reduce selling, general and administrative expense. Research and development expense of \$330,805 for the year 2017 was slightly higher than the prior year. For the fourth quarter 2017, operating expenses increased 5% to \$394,213 versus the same period in 2016. The principal factor included higher expenses to support the Company's sales activities.

(Loss) Applicable to Common Shares

Net income was \$6,091 for the twelve months ended December 31, 2017, an improvement of \$712,145 from 2016. Dividends on preferred stock were \$24,152 for both annual periods. The loss applicable to common stock was \$(18,061) for the year 2017 versus a loss applicable to common stock of \$(730,206) the prior year. On a basic

earnings per share basis, the Company's 2017 results were breakeven compared to a loss of \$(0.18) for 2016.

For the fourth quarter 2017, net income was \$2,571 versus a net loss of \$(220,452) for the same period of the prior year. Dividends on preferred stock were \$6,038 for both periods. The loss applicable to common stock was \$(3,467) for the three months ended December 31, 2017, compared to a loss applicable to common stock of \$(226,490) for the same period in 2016. The fourth quarter 2017 loss applicable to common stock was breakeven on a basic earnings per share basis versus a loss of \$(0.06) a year ago.

EBITDA*

Earnings before interest, income taxes, depreciation and amortization (EBITDA) increased more than \$724,000 for the twelve months ended December 31, 2017, to \$519,197 from negative EBITDA of \$(205,630) in 2016. For the fourth quarter 2017, EBITDA increased to \$129,136 from negative EBITDA of \$(94,827) a year ago.

For the 2017 year-to-date period, adjusted EBITDA, which excludes non-cash stock based compensation, increased more than \$750,000 to \$720,771 from negative adjusted EBITDA of \$(32,945) the prior year. Adjusted EBITDA for the fourth quarter 2017 increased to \$181,658 from negative EBITDA of \$(80,217) for the same period in 2016.

Cash and Total Debt Outstanding

Cash on hand was \$920,802 at December 31, 2017, a 26% increase from 2016 year-end.

Cash provided by operating activities increased 284% to \$615,959 for the year 2017 compared from \$160,555 the prior year.

At 2017 year-end, the Company's total debt outstanding was \$532,349 or 28% below the amount on the same date in 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.

*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. 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, 2017. 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, <u>2017</u>	December 31, <u>2016</u>
Current Assets		
Cash	\$ 920,802	\$ 730,352
Accounts receivable, less allowance for doubtful accounts	336,009	271,832
Inventories	617,144	376,561
Prepaid expenses	138,175	59,203
Total current assets	<u>2,012,430</u>	<u>1,437,948</u>
Property and Equipment, at cost	8,307,514	8,156,749
Less accumulated depreciation	<u>(6,422,448)</u>	<u>(6,019,844)</u>
	<u>1,885,066</u>	<u>2,136,905</u>
Other Assets	<u>52,078</u>	<u>50,620</u>
TOTAL ASSETS	<u><u>\$ 3,949,574</u></u>	<u><u>\$ 3,625,473</u></u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities		
Short term debt	\$ 350,605	\$ 293,791
Accounts payable	307,498	151,757
Customer deposits	407,956	249,977
Accrued expenses	221,976	210,769
Total current liabilities	<u>1,288,035</u>	<u>906,294</u>
Long term debt	<u>181,744</u>	<u>447,049</u>
Total liabilities	1,469,779	1,353,343
Commitments and contingencies		
Total Shareholders' Equity	<u>2,479,795</u>	<u>2,272,130</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u><u>\$ 3,949,574</u></u>	<u><u>\$ 3,625,473</u></u>

SCI ENGINEERED MATERIALS, INC.
STATEMENT OF OPERATIONS

FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2017 AND 2016

	THREE MONTHS ENDED DEC. 31,		TWELVE MONTHS ENDED DEC. 31,	
	2017	2016	2017	2016
Revenue	\$ 1,539,937	\$ 1,219,324	\$ 6,801,365	\$ 5,465,599
Cost of revenue	1,133,137	1,051,855	5,233,814	4,381,198
Gross profit	406,800	167,469	1,577,551	1,084,401
SG&A expense	316,122	299,485	1,197,625	1,425,885
Research & Development expense	78,091	77,737	330,805	319,476
Income (loss) from operations	12,587	(209,753)	49,121	(660,960)
Interest	9,043	10,699	41,109	45,051
Income (loss) before provision for income taxes	3,544	(220,452)	8,012	(706,011)
Income tax expense	973	-	1,921	43
Net income(loss)	2,571	(220,452)	6,091	(706,054)
Dividends on preferred stock	6,038	6,038	24,152	24,152
LOSS APPLICABLE TO COMMON SHARES	\$ (3,467)	\$ (226,490)	\$ (18,061)	\$ (730,206)
Earnings per share - basic and diluted				
Loss per common share				
Basic	\$ (0.00)	\$ (0.06)	\$ (0.00)	\$ (0.18)
Diluted	\$ (0.00)	\$ (0.02)	\$ (0.00)	\$ (0.18)
Weighted average shares outstanding				
Basic	4,174,537	4,079,925	4,138,516	4,052,128
Diluted	4,174,537	4,079,925	4,138,516	4,052,128

SCI ENGINEERED MATERIALS, INC.
CONDENSED STATEMENTS OF CASH FLOWS

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
CASH PROVIDED BY (USED IN):		
Operating activities	\$ 615,959	\$ 160,555
Investing activities	(104,029)	(87,865)
Financing activities	(321,480)	(339,508)
NET INCREASE (DECREASE) IN CASH	190,450	(266,818)
CASH - Beginning of period	730,352	977,170
CASH - End of period	\$ 920,802	\$ 730,352

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

	Three months ended Dec. 31,		Twelve months ended Dec. 31,	
	2017	2016	2017	2016
Net income (loss)	\$ 2,571	\$ (220,452)	\$ 6,091	\$ (706,054)
Interest	9,043	10,699	41,109	45,051
Income taxes	973	-	1,921	43
Depreciation and amortization	116,549	114,926	470,076	455,330
EBITDA	129,136	(94,827)	519,197	(205,630)
Stock based compensation	52,522	14,610	201,574	172,685
Adjusted EBITDA	\$ 181,658	\$ (80,217)	\$ 720,771	\$ (32,945)