



SCI Engineered Materials

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The Science of Engineered Materials™

SCI Engineered Materials, Inc. Reports Profitable Second Quarter and First Half 2017 Results

COLUMBUS, Ohio (August 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 three months and six months ended June 30, 2017.

Dan Rooney, President and Chief Executive Officer, said, “Our second quarter financial results reflect the solid increase in sales, higher gross profit and benefits from cost-cutting actions implemented during the second half of last year. Order backlog was \$2.9 million at June 30, 2017, which represents the highest amount since the first quarter of 2015. We are pleased with our improved performance for the first half of 2017 versus the same period a year ago.”

Mr. Rooney added, “We continue to be actively involved in developing and testing innovative products with an emphasis on accelerating time-to-market. This past June we announced a joint project with Case Western Reserve that involves tests to measure the band gaps and work function of several materials SCI has developed. If these tests are successful, these materials could replace ones currently being used in thin film solar products. We expect these tests to be completed during the third quarter of 2017.”

Mr. Rooney continued, “During the second quarter and first half of this year we made additional investments in our business while continuing to reduce total debt outstanding. We are positioning SCI for sustained growth through new products and realization of further benefits from changes in our sales and marketing strategy last year.”

Revenue

Revenue increased 58% to \$1,911,498 for the second quarter of 2017 from \$1,206,484 for the same period in 2016. For the six months ended June 30, 2017, revenue increased 27% to \$3,283,414 from \$2,581,296 the prior year. Sales for both periods in 2017 benefited from higher revenue related to pricing and product mix.

Order backlog was approximately \$2.9 million at June 30, 2017, representing a sequential quarter increase of 53% and 21% above the same date a year ago. This growth was led by increased orders for photonic products. Bookings remained strong throughout the second quarter of 2017.

Gross profit

Gross profit dollars increased 61% to \$462,847 for the second quarter of 2017 from \$286,859 a year ago and gross profit margin increased to 24.2% from 23.8% for the same period last year. For the first half of 2017, gross profit increased 46% to \$799,832 from \$546,469 a year ago, while gross profit margin for the first six months of 2017 increased to 24.4% from 21.2% the prior year. The increase in gross profit and gross profit margin for the second quarter and first half of 2017 compared to the same periods last year also benefited from pricing and product mix.

Operating expenses

Operating expenses (general and administrative expense, marketing and sales expense and research and development expense) decreased 16% to \$381,868 for the second quarter of 2017 from \$452,961 a year ago. Operating expenses for the first half of 2017 decreased 20% to \$747,807 from \$931,775 for the same period in 2016. The decrease in operating expenses for both periods in 2017 is primarily related to restructuring the sales department in late 2016 to be more cost-effective and improve efficiencies.

Income/(Loss) Applicable to Common Shares

The combination of higher revenue and higher gross profit plus lower operating expenses enabled the Company to achieve positive income applicable to common shares for the three and six months ended June 30, 2017. Net income applicable to

common shares was \$63,283 or \$0.02 per diluted share for the three months ended June 30, 2017, compared to a loss applicable to common shares of \$(183,339) or \$0.05 per share a year ago. Net income applicable to common shares for the first six months of 2017 was \$16,797 or breakeven on a diluted per share basis versus a loss applicable to common shares of \$(420,266) or \$0.10 per share for the same period in 2016.

EBITDA

Earnings before interest, income taxes, depreciation and amortization (EBITDA) increased to \$202,176 for the second quarter of 2017 from negative EBITDA of \$(52,920) last year. For the first half of 2017, EBITDA increased \$445,346 to \$286,296 from negative EBITDA of \$(159,050) last year.

Adjusted EBITDA, which excludes non-cash stock based compensation, increased to \$252,845 for the three months ended June 30, 2017, from adjusted negative EBITDA of \$(1,388) in 2016. For the first six months of 2017, adjusted EBITDA increased to \$383,827 from adjusted negative EBITDA of \$(53,947) for the same period last year.

Cash and Total Debt Outstanding

Cash on hand increased 35% to \$983,621 for the first half of 2017 from \$730,352 at year-end 2016.

Cash provided by operating activities was \$456,770 for the first half of 2017 compared to \$134,788 for the same period a year ago.

The Company's total debt outstanding was \$689,480 at June 30, 2017, or 7% below year-end 2016. During the first six months of 2017 the Company closed on a new \$103,550 capital lease for manufacturing equipment.

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.

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 be actively involved in developing and testing innovative products with an emphasis on accelerating time-to-market, materials that could replace ones currently being used in thin film solar products if current tests expected to be completed in the third quarter of 2017 are successful, and positioning SCI for sustained growth through new products and further benefits from changes in SCI's sales and marketing strategy late last year. 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

	June 30, 2017 (UNAUDITED)	December 31, 2016
Current Assets		
Cash	\$ 983,621	\$ 730,352
Accounts receivable, less allowance for doubtful accounts	474,447	271,832
Inventories	1,723,056	376,561
Prepaid expenses	77,111	59,203
Total current assets	<u>3,258,235</u>	<u>1,437,948</u>
Property and Equipment, at cost	8,302,262	8,156,749
Less accumulated depreciation	<u>(6,246,881)</u>	<u>(6,019,844)</u>
	<u>2,055,381</u>	<u>2,136,905</u>
Other Assets	<u>49,672</u>	<u>50,620</u>
TOTAL ASSETS	<u>\$ 5,363,288</u>	<u>\$ 3,625,473</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities		
Short term debt	\$ 331,589	\$ 293,791
Accounts payable	352,276	151,757
Customer deposits	1,721,224	249,977
Accrued expenses	201,775	210,769
Total current liabilities	<u>2,606,864</u>	<u>906,294</u>
Long term debt	<u>357,891</u>	<u>447,049</u>
Total liabilities	<u>2,964,755</u>	<u>1,353,343</u>
Commitments and contingencies		
Total Shareholders' Equity	<u>2,398,533</u>	<u>2,272,130</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 5,363,288</u>	<u>\$ 3,625,473</u>

SCI ENGINEERED MATERIALS, INC.

STATEMENTS OF OPERATIONS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2017 AND 2016
(UNAUDITED)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2017	2016	2017	2016
Revenue	\$ 1,911,498	\$ 1,206,484	\$ 3,283,414	\$ 2,581,296
Cost of revenue	<u>1,448,651</u>	<u>919,625</u>	<u>2,483,582</u>	<u>2,034,827</u>
Gross profit	462,847	286,859	799,832	546,469
SG & A expense	302,693	378,544	586,020	777,282
Research & Development expense	<u>79,175</u>	<u>74,417</u>	<u>161,787</u>	<u>154,493</u>
Income (loss) from operations	80,979	(166,102)	52,025	(385,306)
Interest	<u>10,710</u>	<u>11,156</u>	<u>22,204</u>	<u>22,841</u>
Income (loss) before provision for income taxes	70,269	(177,258)	29,821	(408,147)
Income tax expense	<u>948</u>	<u>43</u>	<u>948</u>	<u>43</u>
Net income (loss)	69,321	(177,301)	28,873	(408,190)
Dividends on preferred stock	<u>6,038</u>	<u>6,038</u>	<u>12,076</u>	<u>12,076</u>
INCOME (LOSS) APPLICABLE TO COMMON SHARES	<u>\$ 63,283</u>	<u>\$ (183,339)</u>	<u>\$ 16,797</u>	<u>\$ (420,266)</u>
Earnings per share - basic and diluted				
Income (loss) per common share				
Basic	\$ <u>0.02</u>	\$ <u>(0.05)</u>	\$ <u>0.00</u>	\$ <u>(0.10)</u>
Diluted	\$ <u>0.02</u>	\$ <u>(0.05)</u>	\$ <u>0.00</u>	\$ <u>(0.10)</u>
Weighted average shares outstanding				
Basic	<u>4,125,880</u>	<u>4,042,722</u>	<u>4,114,756</u>	<u>4,033,488</u>
Diluted	<u>4,125,880</u>	<u>4,042,722</u>	<u>4,114,756</u>	<u>4,033,488</u>

SCI ENGINEERED MATERIALS, INC.

CONDENSED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
CASH PROVIDED BY (USED IN):		
Operating activities	\$ 456,770	\$ 134,788
Investing activities	(43,870)	(58,618)
Financing activities	<u>(159,631)</u>	<u>(185,757)</u>
NET INCREASE (DECREASE) IN CASH	253,269	(109,587)
CASH - Beginning of period	<u>730,352</u>	<u>997,170</u>
CASH - End of period	<u>\$ 983,621</u>	<u>\$ 887,583</u>

RECONCILIATION OF GAAP TO NON-GAAP MEASURES

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2017 AND 2016

	Three months ended June 30,		Six months ended June 30,	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Net income (loss)	\$ 69,321	\$ (177,301)	\$ 28,873	\$ (408,190)
Interest	10,710	11,156	22,204	22,841
Income taxes	948	43	948	43
Depreciation and amortization	121,197	113,182	234,271	226,256
EBITDA	<u>202,176</u>	<u>(52,920)</u>	<u>286,296</u>	<u>(159,050)</u>
Stock based compensation	50,669	51,532	97,531	105,103
Adjusted EBITDA	<u>\$ 252,845</u>	<u>\$ (1,388)</u>	<u>\$ 383,827</u>	<u>\$ (53,947)</u>