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The Science of Engineered Materials™

## **SCI Engineered Materials, Inc. Reports Record Net Income**

COLUMBUS, Ohio (August 1, 2018) 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 six months and three months ended June 30, 2018.

Dan Rooney, President and Chief Executive Officer, said, "We are pleased with our results for the first six months and second quarter of 2018, which include significant increases in revenue and net income, that were driven by solid performance across our product portfolio. During this period, we added new customers and the sharp increase in orders contributed to a backlog of \$6.3 million at June 30, 2018. Included in this amount was a \$2 million order from a new customer for thin film solar products. These achievements position us for a strong second half."

Mr. Rooney continued, "We are actively monitoring industry and global developments, especially in the thin film solar market. At mid-year 2018, sales of thin film solar products exceeded the amount for all of last year. Based on current orders booked, customer deposits received and customer forecasts for additional solar orders for the remainder of 2018, we are hiring more employees in our manufacturing operations and recently added inside sales and R&D staff. We anticipate revenue for the second half of this year will be similar to 2018's first half results. We are working diligently to respond to increased demand for SCI's products and are excited regarding our future opportunities."

### *Revenue*

Higher volume of thin film solar products and higher volume and pricing of photonics products resulted in significant revenue growth for the 2018 year-to-date and second quarter compared to last year. Revenue increased 34% to \$4,390,609 for the first half of this year from \$3,283,414 a year ago. For the three months ended June 30, 2018, revenue increased 33% to \$2,543,751 from \$1,911,498 in 2017. The Company anticipates that revenue in the second half of 2018 will be similar to the first half of this year.

Order backlog was a record \$6.3 million at June 30, 2018, compared to \$3.6 million at March 31, 2018, and \$2.9 million on the same date a year ago.

### *Gross profit*

Gross profit and gross margin for the first six months and second quarter of 2018 benefited from the increase in revenue, pricing and improved product mix. For the six months ended June 30, 2018, gross profit increased 56% to \$1,251,541 from \$799,832 a year ago. Second quarter 2018 gross profit increased 71% to \$789,529 from \$462,847 a year ago.

### *Operating expenses*

The Company continues to realize benefits from its marketing strategy, which has resulted in additional customers and increased orders for products utilized in the thin film solar and photonics markets. The growth in operating expenses (general and administrative expense, marketing and sales expense and research and development expense), has principally occurred in marketing and sales related to higher wages, benefits and sales rep commissions versus last year. The Company continues to invest through its internal research and development initiatives in an innovative buffer layer for thin film solar cells and other applications. Operating expenses for the first half of 2018 were \$833,838 or 11% higher than a year ago and \$460,039 or 20% above the second quarter of 2017.

### *Income Applicable to Common Stock*

The sharp increase in revenue and significantly higher gross profit in each period compared to a year ago contributed to record income applicable to common stock for the first six months and second quarter of this year. Income applicable to common stock increased to \$386,171, or \$0.09 per share, for the first six months of 2018 from \$16,797, or \$0.00 per share, a year ago. For the second quarter of 2018, income applicable to common stock increased significantly to \$314,972, or \$0.07 per share, for the three months ended June 30, 2018, from \$63,283, or \$0.02 per share, for the comparable period in 2017.

### *EBITDA*

Earnings before interest, income taxes, depreciation and amortization (EBITDA) for the first six months of 2018 increased 131% to \$661,507 from \$286,296 a year ago. The 2018 amount benefited from significantly higher net income versus the same period last year. Adjusted EBITDA, which excludes non-cash stock based compensation, was \$704,526 for the first half of 2018 compared to \$383,827 or 83% above a year ago.

EBITDA for the three months ended June 30, 2018, more than doubled to \$452,937 from \$202,176 for the same period in 2017 due to the significant increase in net income. Adjusted EBITDA increased 88% to \$475,370 for the second quarter of 2018 from \$252,845 for the same period last year.

### *Cash and Total Debt Outstanding*

Cash on hand of \$2,582,296 at June 30, 2018, was 144% and 163%, respectively, above the March 31, 2018, and 2017 year-end amounts.

Cash provided by operating activities of \$1,976,724 for the first six months of 2018 was 330% above the same period last year. This increase is principally due to customer deposits received from thin film solar and photonics customers during the first half of 2018.

The Company's total debt outstanding decreased 15% during the six months ended June 30, 2018, and was approximately \$451,000 compared to \$532,000 at 2017 year-end. The Company entered into a new equipment capital lease obligation of approximately \$105,000 during the first half of 2018 to increase operating capacity.

*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](http://www.sciengineeredmaterials.com) or follow SCI Engineered Materials, Inc. at:

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

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

<https://plus.google.com/107052645863884937012>

\*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 anticipation that revenue for the second half of this year will be similar to 2018's first half results. 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

	June 30, <u>2018</u> (UNAUDITED)	December 31, <u>2017</u>
Current Assets		
Cash	\$ 2,582,296	\$ 920,802
Accounts receivable, less allowance for doubtful accounts	755,372	336,009
Inventories	1,565,904	617,444
Prepaid expenses	219,533	138,175
Total current assets	<u>5,123,105</u>	<u>2,012,430</u>
Property and Equipment, at cost	8,538,797	8,307,514
Less accumulated depreciation	<u>(6,661,524)</u>	<u>(6,422,448)</u>
	<u>1,877,273</u>	<u>1,885,066</u>
Other Assets	<u>59,322</u>	<u>52,078</u>
<b>TOTAL ASSETS</b>	<u><u>\$ 7,059,700</u></u>	<u><u>\$ 3,949,574</u></u>

#### LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities		
Short term debt	\$ 264,863	\$ 350,605
Accounts payable	660,438	307,498
Customer deposits	2,753,805	407,956
Accrued expenses	297,345	221,976
Total current liabilities	<u>3,976,451</u>	<u>1,288,035</u>
Long term debt	<u>186,340</u>	<u>181,744</u>
Total liabilities	4,162,791	1,469,779
Commitments and contingencies		
Total Shareholders' Equity	<u>2,896,909</u>	<u>2,479,795</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<u><u>\$ 7,059,700</u></u>	<u><u>\$ 3,949,574</u></u>

**SCI ENGINEERED MATERIALS, INC.**

**STATEMENT OF OPERATIONS**

**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018 AND 2017  
(UNAUDITED)**

	<b>THREE MONTHS ENDED JUNE 30,</b>		<b>SIX MONTHS ENDED JUNE 30,</b>	
	<b><u>2018</u></b>	<b><u>2017</u></b>	<b><u>2018</u></b>	<b><u>2017</u></b>
Revenue	\$ 2,543,751	\$ 1,911,498	\$ 4,390,609	\$ 3,283,414
Cost of revenue	1754,222	1,448,651	3,139,068	2,483,582
Gross profit	789,529	462,847	1,251,541	799,832
SG&A expense	372,343	302,693	680,303	586,020
Research & Development expense	87,696	79,175	153,535	161,787
Income from operations	329,490	80,979	417,703	52,025
Interest	5,236	10,710	12,964	22,204
Income before provision for income taxes	324,254	70,269	404,739	29,821
Income tax expense	3,244	948	6,492	948
Net income	321,010	69,321	398,247	28,873
Dividends on preferred stock	6,038	6,038	12,076	12,076
<b>INCOME APPLICABLE TO COMMON SHARES</b>	<b>\$ 314,972</b>	<b>\$ 63,283</b>	<b>\$ 386,171</b>	<b>\$ 16,797</b>
Earnings per share - basic and diluted				
Income per common share				
Basic	\$ 0.07	\$ 0.02	\$ 0.09	\$ 0.00
Diluted	\$ 0.07	\$ 0.02	\$ 0.09	\$ 0.00
Weighted average shares outstanding				
Basic	4,214,605	4,125,880	4,205,608	4,114,756
Diluted	4,222,613	4,125,880	4,206,762	4,114,756

**SCI ENGINEERED MATERIALS, INC.**

**CONDENSED STATEMENTS OF CASH FLOWS**

**FOR THE SIX MONTHS ENDED JUNE 30, 2018 AND 2017**

	<b>2018</b>	<b>2017</b>
<b>CASH PROVIDED BY (USED IN):</b>		
Operating activities	\$ 1,976,724	\$ 456,770
Investing activities	(127,972)	(43,870)
Financing activities	(187,258)	(159,631)
<b>NET INCREASE IN CASH</b>	1,661,494	253,269
<b>CASH - Beginning of period</b>	920,802	730,352
<b>CASH - End of period</b>	\$ 2,582,296	\$ 983,621

**RECONCILIATION OF GAAP TO NON-GAAP MEASURES**

**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2018 AND 2017**

	<b>Three months ended June 30,</b>		<b>Six months ended June 30,</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Net income	\$ 321,010	\$ 69,321	\$ 398,247	\$ 28,873
Interest	5,236	10,710	12,964	22,204
Income taxes	3,244	948	6,492	948
Depreciation and amortization	123,447	121,197	243,804	234,271
<b>EBITDA</b>	452,937	202,176	661,507	286,296
Stock based compensation	22,433	50,669	43,019	97,531
<b>Adjusted EBITDA</b>	\$ 475,370	\$ 252,845	\$ 704,526	\$ 383,827