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The Science of Engineered Materials™

SCI Engineered Materials, Inc. Reports 2019 Six Month and Second Quarter Results

COLUMBUS, Ohio (August 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 results for the six months and three months ended June 30, 2019.

Jeremy Young, President and Chief Executive Officer, stated, “We achieved a 54% increase in revenue and an 11% increase in gross profit for the first six months of 2019 compared to last year. Second quarter gross profit margin increased sequentially from the first quarter and was lower than the same period in 2018 due to product mix. During the most recent quarter we expanded our presence in niche markets with the addition of new customers for SCI’s optics and photonics products. Order backlog was \$6.6 million at June 30, 2019, which is above the previous quarter-end amount and higher than on the same date last year.”

Mr. Young added, “We continue to position SCI for sustained growth in all of our markets. During the second quarter we completed construction of a mezzanine area above our manufacturing operations in Columbus, Ohio. That project is in the final stage of code approval and we look forward to utilizing this additional space to enhance our R&D and manufacturing capabilities. Additionally, production equipment was installed at our joint partner’s facility in Zhejiang, China, during the second quarter and product qualification has been initiated. This facility is expected to be an integral part of SCI’s thin film solar growth plans in China.”

Mr. Young continued, “China is expected to remain the world leader for installed photovoltaic solar capacity and the long-term outlook for thin film solar remains strong despite near-term economic uncertainties, most notably related to U.S.-China tariffs. SCI’s revenue for 2019 is expected to be above the prior year while product mix, specifically related to lower than planned thin film solar revenue, will adversely impact the year-over-year net income comparison.”

Revenue

Revenue for the six months ended June 30, 2019, increased 54% to \$6,756,986 from \$4,390,609 for the same period last year. This was attributable to higher pricing, driven by year-over-year increases in a key raw material, and higher volume for photonics products. Thin film solar product volume was lower for the first half of 2019 compared to a year ago. Tariffs impacted thin film solar order rates and shipments throughout the second quarter of 2019. Revenue increased nearly 8% to \$2,741,948 for the second quarter of this year from \$2,543,751 in 2018.

Order backlog was \$6.6 million at June 30, 2019, compared to \$6.4 million at March 31, 2019, and \$6.3 million on the same date last year.

Gross profit

Gross profit increased 11% to \$1,390,971 for the first half of 2019 from \$1,251,541 the prior year. In 2019, gross profit particularly benefited from higher volume and pricing of photonics products, driven by increases in a key raw material. Second quarter 2019 gross profit decreased 12% to \$694,669 compared to \$789,529 last year. This was principally due to product mix, particularly lower thin film solar sales compared to the same period in 2018.

Operating expenses

For the first six months of 2019, operating expenses (general and administrative expense, research and development expense, and marketing and sales expense) were \$1,050,870 compared to \$833,838 last year, an increase of 26%. General and administrative

expense increased 34% on a year-over-year basis principally due to executive management transition expenses. The Company's former President and CEO retired in June 2019. General and administrative expense is expected to be lower during the second half of 2019 compared to the first half of this year due to completion of the transition. Research and development expense increased 33% for the first half of 2019 versus the same period last year as a result of higher compensation plus ongoing research initiatives. These include an innovative buffer layer for thin film solar cells, transparent conductive oxide systems for transparent electronics and thin film solar.

For the second quarter of 2019, operating expense increased nearly 12% to \$513,582 from \$460,039 last year. General and administrative expense was 24% higher than a year ago primarily due to the previously noted transition expenses, plus higher wages and compensation expense and start-up training costs in China directly related to the Company's new bonding operation.

Income Applicable to Common Shares

Income applicable to common shares was \$309,684, or \$0.07 per share, for the first six months ended June 30, 2019, compared to \$386,171, or \$0.09 per share, for the same period in 2018. Second quarter 2019 income applicable to common stock was \$160,380, or \$0.04 per share, versus \$314,972, or \$0.07 per share, for the same period a year ago.

*EBITDA**

For the first half of 2019, earnings before interest, income taxes, depreciation and amortization (EBITDA) was \$595,664 versus \$661,507 for the same period a year ago. Adjusted EBITDA, which excludes non-cash stock-based compensation, was \$661,200 for the six months ended June 30, 2019, compared to \$704,526 for the first half of 2018.

EBITDA for the three months ended June 30, 2019, was \$326,826 compared to \$452,937 the prior year. Adjusted EBITDA was \$358,202 versus \$475,370 for the same period in 2018.

Cash and Total Debt Outstanding

Cash on hand remained stable during the first six months of 2019, which was \$1,798,333 at June 30, 2019 compared to \$1,802,839 at 2018 year-end.

Cash provided by operating activities was \$293,280 for the first half of 2019 compared to \$1,976,724 for the same period last year. This decrease was due to lower accrued expenses and customer deposits versus the same period last year.

The Company's total debt outstanding was \$186,340 at June 30, 2019, which is a 29% decrease since December 31, 2018.

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>

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*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 continue to position SCI for sustained growth in all of our markets, revenue for 2019 is expected to be above the prior year while product mix, specifically related to

lower than planned thin film solar revenue, will adversely impact the year-over-year net income comparison. 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. Considering 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>2019</u> (UNAUDITED)	December 31, <u>2018</u>
Current Assets		
Cash	\$ 1,798,333	\$ 1,802,839
Accounts receivable, less allowance for doubtful accounts	351,247	477,932
Note receivable	7,477	-
Inventories	3,562,209	2,752,845
Prepaid expenses	54,949	613,425
Total current assets	<u>5,774,215</u>	<u>5,647,041</u>
Property and Equipment, at cost	8,766,923	8,643,752
Less accumulated depreciation	<u>(6,854,081)</u>	<u>(6,720,847)</u>
	1,912,842	1,922,905
Other Assets	<u>533,809</u>	<u>75,613</u>
TOTAL ASSETS	<u><u>\$ 8,240,866</u></u>	<u><u>\$ 7,645,559</u></u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities		
Short term debt	\$ 77,956	\$ 114,853
Operating lease, current	76,710	-
Accounts payable	326,971	321,348
Customer deposits	3,127,505	3,202,447
Accrued expenses	189,522	336,357
Total current liabilities	<u>3,798,664</u>	<u>3,975,005</u>
Long term debt	108,384	147,878
Operating lease, long term	<u>433,046</u>	<u>-</u>
Total liabilities	<u>4,340,094</u>	<u>4,122,883</u>
Total Shareholders' Equity	<u>3,900,772</u>	<u>3,522,676</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u><u>\$ 8,240,866</u></u>	<u><u>\$ 7,645,559</u></u>

SCI ENGINEERED MATERIALS, INC.
STATEMENT OF OPERATIONS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018
(UNAUDITED)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Revenue	\$ 2,741,948	\$ 2,543,751	\$ 6,756,986	\$ 4,390,609
Cost of revenue	<u>2,047,279</u>	<u>1,754,222</u>	<u>5,366,015</u>	<u>3,139,068</u>
Gross profit	694,669	789,529	1,390,971	1,251,541
General and administrative expense	349,636	282,539	709,436	529,707
Research and development expense	94,600	87,696	203,469	153,535
Marketing and sales expense	<u>69,346</u>	<u>89,804</u>	<u>137,965</u>	<u>150,596</u>
Income from operations	181,087	329,490	340,101	417,703
Interest expense	<u>14,669</u>	<u>5,236</u>	<u>13,481</u>	<u>12,964</u>
Income before provision for income taxes	166,418	324,254	326,620	404,739
Income tax expense	<u>-</u>	<u>3,244</u>	<u>4,860</u>	<u>6,492</u>
Net income	166,418	321,010	321,760	398,247
Dividends on preferred stock	<u>6,038</u>	<u>6,038</u>	<u>12,076</u>	<u>12,076</u>
INCOME APPLICABLE TO COMMON SHARES	\$ <u>160,380</u>	\$ <u>314,972</u>	\$ <u>309,684</u>	\$ <u>386,171</u>
Earnings per share - basic and diluted				
Income per common share				
Basic	<u>\$ 0.04</u>	<u>\$ 0.07</u>	<u>\$ 0.07</u>	<u>\$ 0.09</u>
Diluted	<u>\$ 0.04</u>	<u>\$ 0.07</u>	<u>\$ 0.07</u>	<u>\$ 0.09</u>
Weighted average shares outstanding				
Basic	<u>4,321,387</u>	<u>4,214,605</u>	<u>4,308,504</u>	<u>4,205,608</u>
Diluted	<u>4,363,276</u>	<u>4,222,613</u>	<u>4,352,297</u>	<u>4,206,762</u>

SCI ENGINEERED MATERIALS, INC.

CONDENSED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2019 AND 2018

	2019	2018
CASH PROVIDED BY (USED IN):		
Operating activities	\$ 293,280	\$ 1,976,724
Investing activities	(212,195)	(127,972)
Financing activities	(85,591)	(187,258)
NET (DECREASE) INCREASE IN CASH	(4,506)	1,661,494
 CASH - Beginning of period	 1,802,839	 920,802
 CASH - End of period	 \$ 1,798,333	 \$ 2,582,296

RECONCILIATION OF GAAP TO NON-GAAP MEASURES

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
Net income	\$ 166,418	\$ 321,010	\$ 321,760	\$ 398,247
Interest	14,669	5,236	13,481	12,964
Income taxes	-	3,244	4,860	6,492
Depreciation and amortization	145,739	123,447	255,563	243,804
EBITDA	326,826	452,937	595,664	661,507
 Stock based compensation	 31,376	 22,433	 65,536	 43,019
Adjusted EBITDA	\$ 358,202	\$ 475,370	\$ 661,200	\$ 704,526