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The Science of Engineered Materials™

SCI Engineered Materials, Inc. Reports Nine Month and Third Quarter 2018 Results; Increases Full-Year Outlook

COLUMBUS, Ohio (October 31, 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 nine months and three months ended September 30, 2018.

Dan Rooney, President and Chief Executive Officer, said, “Revenue for the first nine months of 2018 exceeded the 2017 full-year amount. Net income for the 2018 year-to-date period would be a record for any annual period in the Company’s history. These results were driven by a significant increase in orders for thin film solar and photonics products. We expect revenue in the fourth quarter of 2018 to be higher compared to the third quarter of 2018. The Company’s revenue for the second half of 2018 is anticipated to be at least 40% above the first half of this year, rather than the previously disclosed increase of 25%, resulting in record net income for 2018.

Our backlog of \$7.5 million at September 30, 2018 was a historic high. Nearly all of this backlog is expected to be shipped in the fourth quarter through the first half of 2019. For the most recent quarter, thin film solar sales increased to 29% of revenue compared to 5% a year ago, underscoring the rapid growth in this area of our business. We are pleased with the gains being achieved through our sales and marketing strategy which are anticipated to benefit future results as we continue adding new customers.

To increase output, we aggressively scaled our operations in response to accelerating demand, especially for thin film solar products. These efforts led to a substantial increase in the number of full-time employees, primarily in manufacturing, during the third quarter.

The costs incurred in conjunction with significant growth are being closely monitored as we remain focused on improving profitability. These production initiatives will lead to higher output beginning in the fourth quarter of this year.”

Revenue

Revenue for the first nine months and third quarter 2018 both increased 34% compared to the same periods a year ago due to higher sales of thin film solar and photonics products. For the 2018 year-to-date period, revenue increased to \$7,043,244 from \$5,261,428 a year ago. Third quarter 2018 revenue was \$2,652,635 compared to \$1,978,014 last year.

Order backlog continued to increase during the third quarter and was \$7.5 million at September 30, 2018, compared to \$1.6 million on the same date in 2017.

Gross profit

Gross profit was \$1,917,425 for the nine months ended September 30, 2018, which is a 64% increase versus the same period in 2017. Third quarter 2018 gross profit of \$665,884 was approximately 80% higher than a year ago. Key factors contributing to the increase in gross profit for the first nine months and third quarter 2018 included a significant increase in revenue and favorable product mix during both periods.

Operating expenses

The Company has responded to increased demand for its thin film solar and photonics products throughout 2018. This has resulted in higher operating expenses (general and administrative expense, marketing and sales expense and research and development expense), for the first nine months and third quarter 2018 versus the same periods last year. Operating expenses were \$1,353,025 for the 2018 year-to-date period compared to \$1,134,217 last year, and \$519,187 for the third quarter 2018 versus \$386,410 a year ago. General and administrative expense was higher for the 2018 year-to-date and third quarter 2018 versus the same periods a year ago primarily due to cost-cutting measures in place during 2017. The increase in marketing and sales expense for the first nine

months and third quarter 2018 was attributable to higher wages and benefits, sales commissions and travel expense related to implementation of the Company's growth strategy which is contributing to additional revenue. Internal investment for research and development activities continues to be focused on innovative applications for customers in the thin film solar and photonics markets.

Income Applicable to Common Stock

Significant year-over-year increases in revenue and gross profit for the first nine months and quarter ended September 30, 2018, resulted in income applicable to common stock of \$524,259 for the 2018 year-to-date period compared to a loss of \$14,594 a year ago. For the third quarter 2018, net income applicable to common stock was \$138,088 versus a loss of \$31,391 last year.

EBITDA

Earnings before interest, income taxes, depreciation and amortization (EBITDA) for the nine months ended September 30, 2018, increased 135% to \$910,705 from \$387,701 for the same period last year driven by significantly higher net income. Adjusted EBITDA, which excludes non-cash stock based compensation, increased to \$994,665 for the first nine months of 2018 from \$536,753 a year ago.

EBITDA for the third quarter of 2018 increased 146% to \$249,198 from \$101,405 last year. Adjusted EBITDA increased to \$290,139 for the third quarter of 2018 from \$152,926 in 2017.

Cash and Total Debt Outstanding

Cash on hand of \$2,262,742 at September 30, 2018, was 146% higher than the 2017 year-end amount. Customer deposits represent a substantial amount of cash on hand and fluctuate in response to the timing of orders and product shipments. These orders are expected to result in product shipments during the fourth quarter of 2018 and first half of 2019.

Net cash provided by operating activities was \$1,965,836 for the nine months ended

September 30, 2018, compared to \$642,872 for the same period in 2017. This is principally due to a significant increase in customer deposits received from thin film solar and photonics customers for the first nine months of this year and significantly higher net income for the 2018 year-to-date period.

Total debt outstanding continued to decline during the third quarter of 2018 and was 28% below the 2017 year-end amount at September 30, 2018. The Company entered into a capital lease obligation of approximately \$105,000 during the first nine months of this year. It is anticipated total debt outstanding at year-end 2018 will be lower than at September 30, 2018, due to the final payment of a loan to the Ohio Development Services Agency and other debt payments.

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/>

<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 expectation that order backlog at September 30, 2018, will be shipped during the fourth quarter of 2018 and first half of 2019, higher output beginning in the fourth quarter of this year, and anticipated fourth quarter results will contribute to second half revenue that is at least 40% above the first half of this year and also result in record net income for 2018. 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

| | September 30, <u>2018</u> (UNAUDITED) | December 31, <u>2017</u> |
|---|---|-----------------------------|
| Current Assets | | |
| Cash | \$ 2,262,742 | \$ 920,802 |
| Accounts receivable, less allowance for doubtful accounts | 356,432 | 336,009 |
| Inventories | 2,245,691 | 617,444 |
| Prepaid expenses | 530,794 | 138,175 |
| Total current assets | <u>5,395,659</u> | <u>2,012,430</u> |
| Property and equipment, at cost | 8,619,398 | 8,307,514 |
| Less accumulated depreciation | <u>(6,626,510)</u> | <u>(6,422,448)</u> |
| | <u>1,992,888</u> | <u>1,885,066</u> |
| Other Assets | <u>62,202</u> | <u>52,078</u> |
| TOTAL ASSETS | <u><u>\$ 7,450,749</u></u> | <u><u>\$ 3,949,574</u></u> |

LIABILITIES AND SHAREHOLDERS' EQUITY

| | | |
|---|----------------------------|----------------------------|
| Current Liabilities | | |
| Short term debt | \$ 215,780 | \$ 350,605 |
| Accounts payable | 429,291 | 307,498 |
| Customer deposits | 3,259,836 | 407,956 |
| Accrued expenses | 295,789 | 221,976 |
| Total current liabilities | <u>4,200,696</u> | <u>1,288,035</u> |
| Long term debt | <u>167,237</u> | <u>181,744</u> |
| Total liabilities | 4,367,933 | 1,469,779 |
| Total Shareholders' Equity | <u>3,082,816</u> | <u>2,479,795</u> |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | <u><u>\$ 7,450,749</u></u> | <u><u>\$ 3,949,574</u></u> |

SCI ENGINEERED MATERIALS, INC.
STATEMENT OF OPERATIONS
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017
(UNAUDITED)

| | THREE MONTHS ENDED SEPT. 30, | | NINE MONTHS ENDED SEPT. 30, | |
|--|-------------------------------------|---------------------------|------------------------------------|---------------------------|
| | <u>2018</u> | <u>2017</u> | <u>2018</u> | <u>2017</u> |
| Revenue | \$ 2,652,635 | \$ 1,978,014 | \$ 7,043,244 | \$ 5,261,428 |
| Cost of revenue | <u>1,986,751</u> | <u>1,607,095</u> | <u>5,125,819</u> | <u>4,090,677</u> |
| Gross profit | 665,884 | 370,919 | 1,917,425 | 1,170,751 |
| SG&A expense | 420,673 | 295,483 | 1,100,976 | 881,503 |
| Research & development expense | <u>98,514</u> | <u>90,927</u> | <u>252,049</u> | <u>252,714</u> |
| Income (loss) from operations | 146,697 | (15,491) | 564,400 | 36,534 |
| Interest income (expense) | <u>2,015</u> | <u>(9,862)</u> | <u>(10,949)</u> | <u>(32,066)</u> |
| Income (loss) before provision for income taxes | 148,712 | (25,353) | 553,451 | 4,468 |
| Income tax | <u>4,586</u> | <u>-</u> | <u>11,078</u> | <u>948</u> |
| Net income (loss) | 144,126 | (25,353) | 542,373 | 3,520 |
| Dividends on preferred stock | <u>6,038</u> | <u>6,038</u> | <u>18,114</u> | <u>18,114</u> |
| INCOME (LOSS) APPLICABLE TO COMMON SHARES | \$ <u>138,088</u> | \$ <u>(31,391)</u> | \$ <u>524,259</u> | \$ <u>(14,954)</u> |
| Earnings per share - basic and diluted | | | | |
| Income (loss) per common share | | | | |
| Basic | \$ <u>0.03</u> | \$ <u>(0.01)</u> | \$ <u>0.12</u> | \$ <u>(0.00)</u> |
| Diluted | \$ <u>0.03</u> | \$ <u>(0.01)</u> | \$ <u>0.12</u> | \$ <u>(0.00)</u> |
| Weighted average shares outstanding | | | | |
| Basic | <u>4,232,214</u> | <u>4,149,537</u> | <u>4,214,573</u> | <u>4,126,478</u> |
| Diluted | <u>4,294,214</u> | <u>4,149,537</u> | <u>4,228,943</u> | <u>4,126,478</u> |

SCI ENGINEERED MATERIALS, INC.
CONDENSED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

| | 2018 | 2017 |
|------------------------------------|--------------|--------------|
| CASH PROVIDED BY (USED IN): | | |
| Operating activities | \$ 1,965,836 | \$ 642,872 |
| Investing activities | (345,140) | (76,577) |
| Financing activities | (278,756) | (240,156) |
| NET INCREASE IN CASH | 1,341,940 | 326,139 |
| CASH - Beginning of period | 920,802 | 730,352 |
| CASH - End of period | \$ 2,262,742 | \$ 1,056,491 |

RECONCILIATION OF GAAP TO NON-GAAP MEASURES
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017

| | Three months ended Sept. 30, | | Nine months ended Sept. 30, | |
|-------------------------------|-------------------------------------|-------------|------------------------------------|-------------|
| | 2018 | 2017 | 2018 | 2017 |
| Net income (loss) | \$ 144,126 | \$ (25,353) | \$ 542,373 | \$ 3,520 |
| Interest (income) expense | (2,015) | 9,862 | 10,949 | 32,066 |
| Income taxes | 4,586 | - | 11,078 | 948 |
| Depreciation and amortization | 102,501 | 116,896 | 346,305 | 351,167 |
| EBITDA | 249,198 | 101,405 | 910,705 | 387,701 |
| Stock based compensation | 40,491 | 51,521 | 83,960 | 149,052 |
| Adjusted EBITDA | \$ 290,139 | \$ 152,926 | \$ 994,665 | \$ 536,753 |