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The Science of Engineered Materials™

SCI Engineered Materials, Inc. Reports 2019 Nine Month and Third Quarter Results

COLUMBUS, Ohio (November 4, 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 nine months and three months ended September 30, 2019.

Jeremy Young, President and Chief Executive Officer, stated, “Our year-to-date and third quarter results benefited from strong revenue growth. This was due to solid increases in photonic product sales, initial orders from new photonic customers, and the pass-through of higher costs of a key raw material. We expect revenue for the full-year 2019 to exceed the full-year 2018. Revenue is anticipated to be lower in the fourth quarter of 2019 compared to recent quarters due to product mix and continued uncertainties concerning the thin film solar market in China.”

Mr. Young continued, “During this period we are focusing our attention and resources on factors we can control in our business. These include maintaining a strong balance sheet, addressing growth markets that leverage SCI’s established manufacturing capabilities, and pursuing market-sensitive R&D initiatives.”

Revenue

Total revenue increased 42% to \$10,012,187 for the first nine months of 2019 from \$7,043,244 for the same period in 2018. For the three months ended September 30, 2019, total revenue increased nearly 23% to \$3,255,201 from \$2,652,635 a year ago. The 2019 year-to-date and third quarter revenue increases were primarily attributable to higher photonic product sales volume and increased pricing related to the pass-through of higher costs of a key raw material. At September 30, 2019, order backlog was \$5.8

million compared to \$6.6 million at June 30, 2019, and \$7.5 million on the same date last year.

Gross profit

Gross profit was \$1,849,491 for the 2019 year-to-date period, which benefited from higher volume and increased pricing for photonics products, compared to \$1,917,425 a year ago. For the 2019 third quarter, gross profit decreased to \$458,520 from \$665,884 for the same period in 2018. Product mix, specifically due to lower thin film solar sales volume, and increased costs for a key raw material used in certain photonic products contributed to lower overall gross profit margin for the nine months and three months ended September 30, 2019, compared to last year.

Operating expenses

Operating expenses (general and administrative expense, research and development expense, and marketing and sales expense) were \$1,442,519 for the 2019 year-to-date period compared to \$1,353,025 a year ago. General and administrative expense was 14% above the prior year period, which was attributable to higher compensation expenses, including temporary executive management transition expenses during the first half of 2019, higher professional fees and start-up costs for the Company's bonding facility in China. Research and development expense increased approximately 13% to \$283,672 for the first nine months of 2019 compared to a year ago due to higher compensation and ongoing research including development of innovative products for the thin film solar and transparent electronics markets. Marketing and sales expense decreased 23% to \$201,427 for the 2019 year-to-date period versus last year principally due to reallocation of salary expense and lower commissions.

For the three months ended September 30, 2019, operating expenses decreased 25% to \$391,649 from \$519,187 the prior year. This was attributable to a decrease in each category of operating expenses versus a year ago.

Income Applicable to Common Shares

Income applicable to common shares for the first nine months of 2019 decreased to \$365,978, or \$0.08 per share, from \$524,259, or \$0.12 per share, for the same period in 2018. For the three months ended September 30, 2019, income applicable to common stock decreased to \$56,294, or \$0.01 per share, compared to \$138,088, or \$0.03 per share, last year.

*EBITDA**

Earnings before interest, income taxes, depreciation and amortization (EBITDA) was \$777,078 for the first nine months of 2019 versus \$910,705 for the same period last year. Adjusted EBITDA, which excludes non-cash stock-based compensation, was \$875,379 for the 2019 year-to-date period compared to \$994,665 a year ago.

EBITDA for the three months ended September 30, 2019, was \$163,430 compared to \$249,198 the prior year. Adjusted EBITDA was \$196,195 versus \$290,139 for the same period last year.

Cash and Total Debt Outstanding

Cash on hand decreased 6% during the 2019 year-to-date period to \$1,694,890 from \$1,802,839 at 2018 year-end. During the first nine months of 2019 the Company purchased inventory and production equipment, and constructed an in-plant office structured mezzanine within its manufacturing facility.

Cash provided by operating activities was \$340,194 for the first nine months of 2019 compared to \$1,965,836 for the same period last year. This decrease was primarily due to lower customer deposits versus the same period a year ago.

The Company's total debt outstanding was \$246,186 at September 30, 2019, compared to \$262,731 at December 31, 2018. The Company paid down \$95,495 of debt during the first nine months of 2019. New capital lease obligations of \$78,950 and \$105,325 were incurred during the 2019 and 2018 year-to-date periods, respectively.

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/>

*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, and forecasts. 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

	September 30, <u>2019</u> (UNAUDITED)	December 31, <u>2018</u>
Current Assets		
Cash	\$ 1,694,890	\$ 1,802,839
Accounts receivable, less allowance for doubtful accounts	298,308	477,932
Note receivable	7,477	-
Inventories	3,094,944	2,752,845
Prepaid expenses	<u>92,156</u>	<u>613,425</u>
Total current assets	<u>5,187,775</u>	<u>5,647,041</u>
Property and Equipment, at cost	8,975,883	8,643,752
Less accumulated depreciation	<u>(6,948,062)</u>	<u>(6,720,847)</u>
	2,027,821	1,922,905
Other Assets	<u>538,608</u>	<u>75,613</u>
TOTAL ASSETS	<u><u>\$ 7,754,204</u></u>	<u><u>\$ 7,645,559</u></u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities		
Short term debt	\$ 97,322	\$ 114,853
Operating lease, current	78,666	-
Accounts payable	243,838	321,348
Customer deposits	2,617,016	3,202,447
Accrued expenses	<u>159,866</u>	<u>336,357</u>
Total current liabilities	3,196,708	3,975,005
Long term debt	148,864	147,878
Operating lease, long term	<u>412,763</u>	<u>-</u>
Total liabilities	3,758,335	4,122,883
Total Shareholders' Equity	<u>3,995,869</u>	<u>3,522,676</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u><u>\$ 7,754,204</u></u>	<u><u>\$ 7,645,559</u></u>

SCI ENGINEERED MATERIALS, INC.
STATEMENT OF OPERATIONS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018
(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Revenue	\$ 3,255,201	\$ 2,652,635	\$ 10,012,187	\$ 7,043,244
Cost of revenue	<u>2,796,681</u>	<u>1,986,751</u>	<u>8,162,696</u>	<u>5,125,819</u>
Gross profit	458,520	665,884	1,849,491	1,917,425
General and administrative expense	247,984	310,464	957,420	840,171
Research and development expense	80,203	98,514	283,672	252,049
Marketing and sales expense	<u>63,462</u>	<u>110,209</u>	<u>201,427</u>	<u>260,805</u>
Income from operations	66,871	146,697	406,972	564,400
Interest expense (income)	<u>4,539</u>	<u>(2,015)</u>	<u>18,020</u>	<u>10,949</u>
Income before provision for income taxes	62,332	148,712	388,952	553,451
Income tax expense	<u>-</u>	<u>4,586</u>	<u>4,860</u>	<u>11,078</u>
Net income	62,332	144,126	384,092	542,373
Dividends on preferred stock	<u>6,038</u>	<u>6,038</u>	<u>18,114</u>	<u>18,114</u>
INCOME APPLICABLE TO COMMON SHARES	<u>\$ 56,294</u>	<u>\$ 138,088</u>	<u>\$ 365,978</u>	<u>\$ 524,259</u>
Earnings per share - basic and diluted				
Income per common share				
Basic	<u>\$ 0.01</u>	<u>\$ 0.03</u>	<u>\$ 0.08</u>	<u>\$ 0.12</u>
Diluted	<u>\$ 0.01</u>	<u>\$ 0.03</u>	<u>\$ 0.08</u>	<u>\$ 0.12</u>
Weighted average shares outstanding				
Basic	<u>4,335,839</u>	<u>4,232,214</u>	<u>4,317,716</u>	<u>4,214,573</u>
Diluted	<u>4,356,947</u>	<u>4,294,214</u>	<u>4,357,273</u>	<u>4,228,943</u>

SCI ENGINEERED MATERIALS, INC.

CONDENSED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
CASH PROVIDED BY (USED IN):		
Operating activities	\$ 340,194	\$ 1,965,836
Investing activities	(343,448)	(345,140)
Financing activities	<u>(104,695)</u>	<u>(278,756)</u>
NET (DECREASE) INCREASE IN CASH	(107,949)	1,341,940
CASH - Beginning of period	<u>1,802,839</u>	<u>920,802</u>
CASH - End of period	<u>\$ 1,694,890</u>	<u>\$ 2,262,742</u>

RECONCILIATION OF GAAP TO NON-GAAP MEASURES

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2019 AND 2018

	Three months ended September 30,		Nine months ended September30,	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Net income	\$ 62,332	\$ 144,126	\$ 384,092	\$ 542,373
Interest	4,539	(2,015)	18,020	10,949
Income taxes	-	4,586	4,860	11,078
Depreciation and amortization	<u>96,559</u>	<u>102,501</u>	<u>370,106</u>	<u>346,305</u>
EBITDA	163,430	249,198	777,078	910,705
Stock based compensation	<u>32,765</u>	<u>40,941</u>	<u>98,301</u>	<u>83,960</u>
Adjusted EBITDA	<u>\$ 196,195</u>	<u>\$ 290,139</u>	<u>\$ 875,379</u>	<u>\$ 994,665</u>