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The Science of Engineered Materials™

SCI Engineered Materials, Inc. Reports First Quarter 2020 Results

COLUMBUS, Ohio (May 4, 2020) 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 financial results for the three months ended March 31, 2020.

The Company continues to receive orders for its products, although some shipments have been impacted by temporary closure of customer facilities due to the COVID-19 global pandemic. During the second quarter of 2020, and perhaps longer, we may operate below our normal production schedule.

Jeremy Young, President and Chief Executive Officer, stated, "Our first quarter 2020 results were profitable. We continue to value our employees and appreciate their contributions during this difficult period. We are aggressively adapting our business practices to the ongoing effects of the COVID-19 global pandemic, maintaining regular contact via phone and other electronic means with our customers and suppliers, and responding to their changing circumstances."

Revenue

Total revenue for the three months ended March 31, 2020, decreased approximately 14% to \$3,438,795 from \$4,015,138 a year ago due to lower volume. International shipments decreased \$582,011 for the first quarter 2020 from the same period last year. Order backlog was \$5.0 million on March 31, 2020, compared to \$5.8 million at year-end 2019.

Gross profit

Gross profit decreased 27% to \$509,338 for the first quarter 2020 from \$696,302 for the same period a year ago, primarily due to lower revenue and product mix.

Operating expenses

Operating expenses (general and administrative expense, research and development expense and marketing and sales expense), decreased 21% to \$421,853 in the first quarter 2020 from \$537,288 for the same period in 2019. Each category of expense decreased at least 20% compared to the three months ended March 31, 2019. The largest dollar decrease was general and administrative expense, which was \$76,635 below the first quarter 2019 amount due to expenses related to the Company's executive management transition last year. Research and development expense decreased \$21,965 for the first three months of 2020 due to lower compensation expense. Marketing and sales expense decreased \$16,835 for the first quarter 2020 versus a year ago as a result of lower travel and compensation expense.

*EBITDA**

Earnings before interest, income taxes, depreciation, and amortization (EBITDA) was \$201,175 for the first three months of 2020 versus \$286,093 a year ago, principally due to this year's first quarter lower net income.

Income Applicable to Common Stock

For the three months ended March 31, 2020, net income applicable to common stock was \$75,478 versus \$149,304 for the same period last year. This decrease was due to lower gross profit for the first quarter 2020, which was partially offset by lower operating expenses. Fully diluted income per share was \$0.02 for this year's first quarter compared to \$0.03 a year ago.

Cash and Total Debt Outstanding

Cash on hand was \$1,818,620 on March 31, 2020, compared to \$1,828,397 on December 31, 2019.

Net cash provided by operating activities was \$170,612 for the first quarter 2020 compared to net cash used in operating activities of \$71,779 for the same period last year. The comparative difference was principally due to decreases in accrued expenses and customer deposits compared to the first quarter 2019.

Total debt outstanding was \$199,683 on March 31, 2020, versus \$223,835 at year-end 2019, a decrease of 11%.

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, forecasts, plans of the Company and its management, and disruption of business resulting from the COVID-19 global pandemic. 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, 2019. 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. Due to 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

	March 31, <u>2020</u>	December 31, <u>2019</u>
	(UNAUDITED)	
Current Assets		
Cash	\$ 1,818,620	\$ 1,828,397
Accounts receivable, less allowance for doubtful accounts	317,517	348,524
Inventories	1,842,884	2,749,038
Prepaid expenses	<u>78,799</u>	<u>105,464</u>
Total current assets	<u>4,057,820</u>	<u>5,031,423</u>
Property and Equipment, at cost	9,106,836	8,989,157
Less accumulated depreciation	<u>(7,109,474)</u>	<u>(7,036,955)</u>
	<u>1,997,362</u>	<u>1,952,202</u>
Right of use asset, net	415,774	434,492
Other assets	<u>88,030</u>	<u>86,958</u>
Other Assets	<u>503,804</u>	<u>521,450</u>
TOTAL ASSETS	<u>\$ 6,558,986</u>	<u>\$ 7,505,075</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities		
Finance lease obligations	\$ 99,817	\$ 98,524
Operating lease obligations	82,720	80,669
Accounts payable	129,157	254,004
Customer deposits	1,568,862	2,408,837
Accrued expenses	<u>146,792</u>	<u>197,061</u>
Total current liabilities	2,027,348	3,039,095
Finance lease obligations, net of current portion	99,866	125,311
Operating lease obligations, net of current portion	<u>370,240</u>	<u>391,833</u>
Total liabilities	2,497,454	3,556,239
Total Shareholders' Equity	<u>4,061,532</u>	<u>3,948,836</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 6,558,986</u>	<u>\$ 7,505,075</u>

SCI ENGINEERED MATERIALS, INC.

STATEMENTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2020 AND 2019
(UNAUDITED)

	<u>2020</u>	<u>2019</u>
Revenue	\$ 3,438,795	\$ 4,015,038
Cost of revenue	<u>2,929,457</u>	<u>3,318,736</u>
Gross profit	509,338	696,302
General and administrative expense	283,165	359,800
Research and development expense	86,904	108,869
Marketing and sales expense	<u>51,784</u>	<u>68,619</u>
Income from operations	87,485	159,014
Interest expense (income)	<u>4,069</u>	<u>(1,188)</u>
Income before provision for income taxes	83,416	160,202
Income taxes	<u>1,900</u>	<u>4,860</u>
Net income	81,516	155,342
Dividends on preferred stock	<u>6,038</u>	<u>6,038</u>
INCOME APPLICABLE TO COMMON STOCK	\$ <u>75,478</u>	\$ <u>149,304</u>
Earnings per share - basic and diluted (Note 7)		
Income per common share		
Basic	\$ <u>0.02</u>	\$ <u>0.03</u>
Diluted	\$ <u>0.02</u>	\$ <u>0.03</u>
Weighted average shares outstanding		
Basic	<u>4,385,998</u>	<u>4,295,417</u>
Diluted	<u>4,394,574</u>	<u>4,350,377</u>

The accompanying notes are an integral part of these financial statements.

SCI ENGINEERED MATERIALS, INC.

CONDENSED STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019

(UNAUDITED)

	2020	2019
CASH PROVIDED BY (USED IN):		
Operating activities	\$ 170,612	\$ (71,779)
Investing activities	(156,237)	(207,451)
Financing activities	(24,152)	(23,949)
NET DECREASE IN CASH	(9,777)	(303,179)
CASH - Beginning of period	1,828,397	1,802,839
CASH - End of period	\$ 1,818,620	\$ 1,499,660

RECONCILIATION OF GAAP TO NON-GAAP MEASURES

FOR THE THREE MONTHS ENDED MARCH 31, 2020 AND 2019

(UNAUDITED)

	2020	2019
Net income	\$ 81,516	\$ 155,342
Interest	4,069	(1,188)
Income taxes	1,900	4,860
Depreciation and amortization	113,690	127,079
EBITDA	\$ 201,175	\$ 286,093