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The Science of Engineered Materials™

SCI Engineered Materials, Inc. Reports Second Quarter and 2020 Year-to-Date Results

COLUMBUS, Ohio (August 7, 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 and six months ended June 30, 2020.

Jeremy Young, President and Chief Executive Officer, said, "We continue to adapt to the evolving impacts and uncertainties related to COVID-19, while also pursuing opportunities to strengthen our business's long-term growth in complementary niche markets. Although we expect to operate below our normal production schedule in the third quarter, encouraging signs are emerging. Order rates increased during the past month and key customers have indicated they plan to gradually increase their operations from current levels during the second half of this year. These factors, coupled with the recent addition of new customers, represent important steps toward improving our future performance."

Revenue

Total revenue for the six months ended June 20, 2020, decreased 11% to \$6,045,382 from \$6,756,986 for the same period last year. For the second quarter 2020, total revenue decreased 5% to \$2,606,587 from \$2,741,948 a year ago. International shipments were lower during both periods in 2020 compared to 2019. Order backlog was \$3.6 million on June 30, 2020, compared to \$5.8 million on December 31, 2019.

Gross profit

Gross profit was \$947,122 for the first half of 2020 versus \$1,390,971 a year ago, a 32% decrease. Second quarter 2020 gross profit decreased 37% to \$437,784 from \$694,669 the prior year. Lower revenue and product mix for both periods in 2020 were the primary factors that contributed to the year-over-year decreases.

Operating expenses

Operating expenses (general and administrative expense, research and development expense, and marketing and sales expense), decreased 21% to \$831,877 for the first half of 2020 from \$1,050,870 in 2019. Second quarter 2020 operating expenses decreased 20% to \$410,024 from \$513,582 the prior year. General and administrative expense was higher during each period in 2019 due to the Company's executive management transition which was completed by mid-year. Marketing and sales expense was impacted by COVID-19 issues during the second quarter and first half of this year principally due to tradeshow cancellations, lower compensation expense and less direct contact with customers due to national and local government guidelines.

*EBITDA**

Earnings before interest, income taxes, depreciation, and amortization (EBITDA) was \$343,925 for the first half of 2020 versus \$595,664 the prior year. EBITDA was \$143,462 for the second quarter 2020 compared to \$326,826 last year.

Income Applicable to Common Stock

Income applicable to common stock was \$89,900, \$0.02 per share, for the six months ended June 30, 2020, compared to \$309,684, \$0.07 per share, for the same period last year. For the second quarter 2020, income applicable to common stock was \$14,422, \$0.00 per share, versus \$160,380, \$0.04 per share, a year ago. The decrease for both periods in 2020 was due to lower gross profit partially offset by lower operating expenses.

Cash and Total Debt Outstanding

On June 30, 2020, cash on hand was \$1,924,807, a 5% increase compared to \$1,828,397 at 2019 year-end. This increase was attributable to funds received from a \$325,300 unsecured promissory note on April 24, 2020, pursuant to the U.S. government's Paycheck Protection Program.

Net cash provided by operating activities was \$8,818 for the six months ended June 30, 2020, compared to \$293,280 a year ago. This decrease was due to lower net income and significantly lower customer deposits, offset by reduced inventory levels versus the same period last year.

Total debt outstanding was \$500,515 on June 30, 2020, compared to \$223,835 on December 31, 2019. This increase was specifically related to the \$325,300 unsecured promissory note referenced above. We anticipate that most, if not all, of this amount will be forgiven by the U.S. Small Business Administration following achievement of the loan requirements.

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, expectations the Company will operate below its normal production schedule in the third quarter 2020, anticipated achievement of the Paycheck Protection Program loan requirements, and customers gradually increasing their operations from current levels during the second half of this year. 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.

BALANCE SHEETS

ASSETS

	June 30, 2020	December 31, 2019
	(UNAUDITED)	
Current Assets		
Cash	\$ 1,924,807	\$ 1,828,397
Accounts receivable, less allowance for doubtful accounts	388,338	348,524
Inventories	871,024	2,749,038
Prepaid expenses	156,033	105,464
Total current assets	<u>3,340,202</u>	<u>5,031,423</u>
Property and Equipment, at cost	9,112,095	8,989,157
Less accumulated depreciation	<u>(7,217,050)</u>	<u>(7,036,955)</u>
	<u>1,895,045</u>	<u>1,952,202</u>
Other Assets	<u>488,408</u>	<u>521,450</u>
TOTAL ASSETS	<u>\$ 5,723,655</u>	<u>\$ 7,505,075</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities		
Short term debt	\$ 245,091	\$ 98,524
Operating lease, current	84,778	80,669
Accounts payable	179,614	254,004
Customer deposits	337,520	2,408,837
Accrued expenses	183,938	197,061
Total current liabilities	<u>1,030,941</u>	<u>3,039,095</u>
Long term debt	255,424	125,311
Operating lease, long term	<u>348,268</u>	<u>391,833</u>
Total liabilities	<u>1,634,633</u>	<u>3,556,239</u>
Commitments and contingencies		
Total Shareholders' Equity	<u>4,089,022</u>	<u>3,948,836</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 5,723,655</u>	<u>\$ 7,505,075</u>

SCI ENGINEERED MATERIALS, INC.

STATEMENTS OF OPERATIONS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2020 AND 2019
(UNAUDITED)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2020	2019	2020	2019
Revenue	\$ 2,606,587	\$ 2,741,948	\$ 6,045,382	\$ 6,756,986
Cost of revenue	<u>2,168,803</u>	<u>2,047,279</u>	<u>5,098,260</u>	<u>5,366,015</u>
Gross profit	437,784	694,669	947,122	1,390,971
General and administrative expense	272,216	349,636	555,381	709,436
Research and development expense	90,421	94,600	177,325	203,469
Marketing and sales expense	<u>47,387</u>	<u>69,346</u>	<u>99,171</u>	<u>137,965</u>
Income from operations	27,760	181,087	115,245	340,101
Interest expense	<u>7,300</u>	<u>14,669</u>	<u>11,369</u>	<u>13,481</u>
Income before provision for income taxes	20,460	166,418	103,876	326,620
Income tax expense	<u>-</u>	<u>-</u>	<u>1,900</u>	<u>4,860</u>
Net income	20,460	166,418	101,976	321,760
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>14,422</u>	\$ <u>160,380</u>	\$ <u>89,900</u>	\$ <u>309,684</u>
Earnings per share - basic and diluted				
Income per common share				
Basic	\$ <u>0.00</u>	\$ <u>0.04</u>	\$ <u>0.02</u>	\$ <u>0.07</u>
Diluted	\$ <u>0.00</u>	\$ <u>0.04</u>	\$ <u>0.02</u>	\$ <u>0.07</u>
Weighted average shares outstanding				
Basic	<u>4,411,714</u>	<u>4,321,387</u>	<u>4,398,856</u>	<u>4,308,504</u>
Diluted	<u>4,418,325</u>	<u>4,363,276</u>	<u>4,406,478</u>	<u>4,352,297</u>

SCI ENGINEERED MATERIALS, INC.

**CONDENSED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2020 AND 2019**

	<u>2020</u>	<u>2019</u>
CASH PROVIDED BY (USED IN):		
Operating activities	\$ 8,818	\$ 293,280
Investing activities	(164,936)	(212,195)
Financing activities	<u>252,528</u>	<u>(85,591)</u>
NET INCREASE (DECREASE) IN CASH	96,410	(4,506)
CASH - Beginning of period	<u>1,828,397</u>	<u>1,802,839</u>
CASH - End of period	<u><u>\$ 1,924,807</u></u>	<u><u>\$ 1,798,333</u></u>

RECONCILIATION OF GAAP TO NON-GAAP MEASURES

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2020 AND 2019

	Three months ended June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Net income	\$ 20,460	\$ 166,418	\$ 101,976	\$ 321,760
Interest	7,300	14,669	11,369	13,481
Income taxes	-	-	1,900	4,860
Depreciation and amortization	<u>115,702</u>	<u>145,739</u>	<u>228,680</u>	<u>255,563</u>
EBITDA	143,462	326,826	343,925	595,664
Stock based compensation	31,182	31,376	62,362	65,536
Adjusted EBITDA	<u><u>\$ 174,644</u></u>	<u><u>\$ 358,202</u></u>	<u><u>\$ 406,287</u></u>	<u><u>\$ 661,200</u></u>