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The Science of Engineered Materials™

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

COLUMBUS, Ohio (November 2, 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 nine months ended September 30, 2020.

Jeremy Young, President and Chief Executive Officer, stated, “We achieved profitable results for the third quarter 2020 following several months of challenges related to COVID-19 issues. Customer orders, which began to improve in April, continued to increase throughout the third quarter. Our photonics business is benefiting from this positive development plus the addition of customers in complementary niche markets such as defense. Our growth strategy is focused on further diversification of SCI’s customer base and markets served. We exited the third quarter positioned to achieve sequential quarterly improvement in our financial performance.”

Revenue

For the three months and nine months ended September 30, 2020, total revenue was adversely impacted by lower volume, pricing and COVID-19 related issues compared to the same periods in 2019. Total revenue decreased 25% to \$7,539,460 for the first nine months of 2020 from \$10,012,187 a year ago. For the third quarter 2020, total revenue was \$1,494,078 versus \$3,255,201 in 2019, a decrease of 54% due to the factors noted above.

Order backlog was \$3.6 million on September 30, 2020 and June 30, 2020. A \$1.0 million net increase in orders from photonics customers during the third quarter 2020 was offset by management's decision to reduce previously reported backlog by \$1.0 million. This action concerns an order for thin film solar products received more than two years ago and uncertainties as to when or how much of that order may be manufactured for the customer.

Gross profit

The decline in gross profit for the first nine months of 2020, compared to a year ago, was attributable to lower revenue. Gross profit decreased 24% for the 2020 year-to-date period to \$1,406,261 from \$1,849,491 last year. For the third quarter 2020, gross profit was \$459,139 versus \$458,920 last year. Gross margin for the three months ended September 30, 2020, was 30.7% compared to 14.1% a year ago due to pricing, product mix and improved manufacturing efficiency.

As the Company implements its growth strategy in complementary niche markets it is anticipated that gross margin, which was 18.7% for the 2020 year-to-date period, will improve although it will continue to be influenced by product mix and price fluctuation of a high priced, low margin raw material for the foreseeable future.

Operating expenses

Operating expenses (general and administrative expense, research and development expense, and marketing and sales expense) decreased 15% to \$1,223,459 for the 2020 year-to-date period from \$1,442,519 a year ago. The most significant decrease occurred in general and administrative expense, which was \$138,595 below the prior year, due to the Company's executive management transition which was completed mid-year 2019. Marketing and sales expense decreased \$57,404 for the first nine months of 2020 to \$144,033 due to cancellation of in person tradeshows and limited travel.

For the third quarter 2020, operating expenses were flat versus last year. Marketing and sales expense decreased \$18,600 compared to a year ago due to the same factors noted above. This amount was offset by a \$15,460 increase in general and administrative expense related to higher compensation and business insurance expense, and a \$3,073 increase in research and development expense, versus the same period in 2019.

Concerning research and development initiatives, we continue to invest in developing new applications for our markets, including electrically conductive Zinc Tin Oxide for Thin Film Solar, Architectural Glass and Thin-Film Transistors. Specialty materials are being researched for use in niche markets such as additive manufacturing. These development efforts adhere to a disciplined innovation approach focused on accelerating time to market for these applications.

*EBITDA**

Earnings before interest, income taxes, depreciation, and amortization (EBITDA) decreased to \$521,418 for 2020 year-to-date period from \$777,078 a year ago. EBITDA increased to \$177,493 for the three months ended September 30, 2020, from \$163,493 in 2019.

Income Applicable to Common Stock

Income applicable to common stock was \$142,361, \$0.03 per share, for the first nine months of 2020, versus \$365,978, \$0.08 per share, the prior year. The 2020 year-to-date decrease was principally due to lower gross profit partially offset by lower operating expenses compared to last year. Third quarter 2020 income applicable to common stock was \$52,461, \$0.01 per share, compared to \$56,294, \$0.01 per share, a year ago.

Cash and Total Debt Outstanding

Cash on hand on September 30, 2020, was a record \$2,503,908, representing a 37% increase compared to \$1,828,397 on December 31, 2019. This increase included funds

received in April 2020 from a \$325,300 unsecured promissory note pursuant to the U.S. government's Paycheck Protection Program.

Net cash provided by operating activities was \$504,561 for the first nine months of 2020, primarily due to net income and non-cash expenses.

Total debt outstanding was \$771,870 on September 30, 2020, compared to \$223,835 on December 31, 2019. This increase was included funds received in April 2020 related to the \$325,300 unsecured promissory note referenced above and a \$307,000 finance lease agreement for manufacturing equipment. The Company anticipates that most, if not all, of the promissory note will be forgiven consistent with the qualification criteria of the U.S. Small Business Administration program. During the first nine months of 2020 the Company made principal payments of approximately \$84,000.

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, the Company is positioned to achieve sequential quarterly improvement in its

financial performance, and as the Company implements its growth strategy anticipation that gross margin will improve from the 2020 year-to-date percentage. 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

<u>ASSETS</u>	September 30, <u>2020</u> (UNAUDITED)	December 31, <u>2019</u>
Current Assets		
Cash	\$ 2,503,908	\$ 1,828,397
Accounts receivable, less allowance for doubtful accounts	362,935	348,524
Inventories	1,228,611	2,749,038
Prepaid expenses	93,639	105,464
Total current assets	4,189,093	5,031,423
Property and Equipment, at cost	8,982,535	8,989,157
Less accumulated depreciation	(7,009,167)	(7,036,955)
	1,973,368	1,952,202
Other Assets	474,952	521,450
TOTAL ASSETS	\$ 6,637,413	\$ 7,505,075

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities		
Short term debt	\$ 364,866	\$ 98,524
Operating lease, current	86,844	80,669
Accounts payable	165,793	254,004
Customer deposits	869,251	2,408,837
Accrued expenses	239,034	197,061
Total current liabilities	1,725,788	3,039,095
Long term debt	407,004	125,311
Operating lease, long term	325,918	391,833
Total liabilities	2,458,710	3,556,239
Total Shareholders' Equity	4,178,703	3,948,836
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 6,637,413	\$ 7,505,075

SCI ENGINEERED MATERIALS, INC.

STATEMENTS OF OPERATIONS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019
(UNAUDITED)

	THREE MONTHS ENDED SEPT. 30,		NINE MONTHS ENDED SEPT. 30,	
	2020	2019	2020	2019
Revenue	\$ 1,494,078	\$ 3,255,201	\$ 7,539,460	\$ 10,012,187
Cost of revenue	<u>1,034,939</u>	<u>2,796,681</u>	<u>6,133,199</u>	<u>8,162,696</u>
Gross profit	459,139	458,520	1,406,261	1,849,491
General and administrative	263,444	247,984	818,825	957,420
Research and development	83,276	80,203	260,601	283,672
Marketing and sales	<u>44,862</u>	<u>63,462</u>	<u>144,033</u>	<u>201,427</u>
Income from operations	67,557	66,871	182,802	406,972
Interest expense	<u>9,058</u>	<u>4,539</u>	<u>20,427</u>	<u>18,020</u>
Income before provision for income taxes	58,499	62,332	162,375	388,952
Income tax expense	<u>-</u>	<u>-</u>	<u>1,900</u>	<u>4,860</u>
Net income	58,499	62,332	160,475	384,092
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>\$ 52,461</u>	<u>\$ 56,294</u>	<u>\$ 142,361</u>	<u>\$ 365,978</u>
Earnings per share - basic and diluted				
Income per common share				
Basic	\$ <u>0.01</u>	\$ <u>0.01</u>	\$ <u>0.03</u>	\$ <u>0.08</u>
Diluted	\$ <u>0.01</u>	\$ <u>0.01</u>	\$ <u>0.03</u>	\$ <u>0.08</u>
Weighted average shares outstanding				
Basic	<u>4,436,185</u>	<u>4,335,839</u>	<u>4,411,390</u>	<u>4,317,716</u>
Diluted	<u>4,447,059</u>	<u>4,356,947</u>	<u>4,420,272</u>	<u>4,357,273</u>

SCI ENGINEERED MATERIALS, INC.

CONDENSED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019

	2020	2019
CASH PROVIDED BY (USED IN):		
Operating activities	\$ 504,561	\$ 340,194
Investing activities	(45,960)	(343,448)
Financing activities	216,910	(104,695)
NET INCREASE (DECREASE) IN CASH	675,511	(107,949)
CASH - Beginning of period	1,828,397	1,802,839
CASH - End of period	\$ 2,503,908	\$ 1,694,890

RECONCILIATION OF GAAP TO NON-GAAP MEASURES

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2020 AND 2019

	Three months ended Sept. 30,		Nine months ended Sept. 30,	
	2020	2019	2020	2019
Net income	\$ 58,499	\$ 62,332	\$ 160,475	\$ 384,092
Interest expense (income)	9,058	4,539	20,427	18,020
Income taxes	-	-	1,900	4,860
Depreciation and amortization	109,936	96,559	338,616	370,106
EBITDA	177,493	163,430	521,418	777,078
Stock based compensation	31,182	32,765	93,544	98,301
Adjusted EBITDA	\$ 208,675	\$ 196,195	\$ 614,962	\$ 875,379