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The Science of Engineered Materials™

SCI Engineered Materials, Inc. Reports 2020 Fourth Quarter and Full-Year Results

COLUMBUS, Ohio (January 29, 2021) 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 2020 fourth quarter and year ended December 31, 2020.

Jeremy Young, President and Chief Executive Officer, said, “We ended 2020 on a positive note, which included solid fourth quarter operating results and our fourth consecutive year of profitability. Increased sales to companies serving the automotive industry were complemented by shipments to additional niche markets including customers seeking custom powder solutions for defense and first responder applications. We enter this year with an improved financial position and increased optimism following positive developments in the second half of 2020.”

Mr. Young added, “During this past year we adapted to several challenges related to the COVID-19 global pandemic. These efforts included ensuring a safe work environment, maintaining virtual contact with our customers, developing more efficient production methods, and pursuing innovative ways to continue implementing our growth strategy. These and other initiatives were successful due to the dedicated efforts of all our employees.”

Revenue

Revenue for the 2020 fourth quarter increased 14% to \$3,356,639 from \$2,938,200 for the same period in 2019, benefiting from increased shipments of photonic products.

For the twelve months ended December 31, 2020, revenue decreased 16% to \$10,896,099 from \$12,950,387 a year ago. This was attributable to lower volume during the first nine months of 2020 including issues related to the COVID-19 global pandemic.

Order backlog was \$2.6 million at 2020 year-end versus \$3.6 million on September 30, 2020. The sequential quarter decrease resulted from management's decision to remove the remaining \$1.0 million related to a previously reported order for thin film solar products received more than two years ago. This action was based on uncertainties as to when or how much of that order may ultimately be manufactured for the customer.

Gross profit

The Company's 2020 fourth quarter gross profit increased to \$792,029 from \$359,072 in 2019. Gross margin was 23.6% for the three months ended December 31, 2020, versus 12.2% the prior year. Key factors contributing to the increase in gross margin included pricing, product mix and manufacturing efficiency.

Annual gross profit for 2020 and 2019 was similar at \$2.2 million. The 2020 amount particularly benefited from solid fourth quarter results. Gross margin increased to 20.2% for 2020 from 17.1% in 2019. The gross margin increase was attributable to the same factors noted for the 2020 fourth quarter.

Operating expenses

Operating expenses (general and administrative expense, research and development expense, and marketing and sales expense) for the 2020 fourth quarter were \$458,484 compared to \$435,186 the prior year. Compensation expense was 5% above the same period a year ago. Slightly higher marketing and sales expense was offset by slightly lower research and development expense for the 2020 fourth quarter versus the prior year.

For 2020, operating expenses decreased 10% to \$1,681,943 from \$1,877,705 in 2019. The largest amount of the decrease was in general and administrative expense, which was \$113,343 below the 2019 amount due to the executive management transition

completed mid-year 2019. Research and development expense decreased 8% to \$337,823 in 2020 from \$366,492 the prior year principally due to lower staffing levels and external consulting expense in 2020. Marketing and sales expense decreased 22% for 2020 to \$195,505 from \$249,255 in 2019 primarily due to cancellation of in person tradeshows and limited travel for most of 2020 due to COVID-19 related issues.

*EBITDA**

Earnings before interest, income taxes, depreciation, and amortization (EBITDA) increased to \$450,676 for the 2020 fourth quarter from \$38,104 for the same period in 2019 due to higher net income. For the year 2020, EBITDA increased more than 27% to \$972,094 from \$762,322 the prior year. The comparative increase for both 2020 periods was due to higher net income.

Income Tax (Benefit)/Expense

The Company reversed the full amount of a deferred tax asset valuation allowance in the 2020 fourth quarter which resulted in a \$1,019,403 income tax benefit for that period. This action was taken following management's review of whether estimated future taxable income is more likely than not to permit utilization of the existing deferred tax asset.

For 2020, the income tax benefit was \$1,017,503 compared to income tax expense of \$3,039 for 2019.

Income Applicable to Common Shares

The 2020 fourth quarter income applicable to common stock was \$1,335,250, or \$0.30 per diluted share, compared to a loss of \$84,779, or \$0.02 per share, for the same period in 2019. Income applicable to common shares was \$1,477,611, or \$0.33 per diluted share, for the twelve months ended December 31, 2020, compared to income of \$281,199, or \$0.06 per diluted share, for 2019. Key factors contributing to the 2020 fourth quarter and full-year amounts included recognition of a \$1.0 million income tax benefit and the solid fourth quarter operating results.

Cash and Total Debt Outstanding

On December 31, 2020, cash on hand was \$2,917,551 versus \$1,828,397 on the same date in 2019. This increase included \$325,300 of funds received in April 2020 from an unsecured promissory note pursuant to the U.S. government's Paycheck Protection Program (PPP) and solid 2020 fourth quarter operating results.

Net cash provided by operating activities was \$991,032 and \$532,207 for 2020 and 2019, respectively. These amounts represent net income net of non-cash items, primarily depreciation and non-cash stock-based compensation expense.

On December 31, 2020, total debt outstanding was \$728,934, versus \$223,835 on the same date in 2019. This increase was principally due to the PPP note referenced above and a \$307,000 finance lease agreement for manufacturing equipment. The U.S. Small Business Administration approved the Company's application for forgiveness of the PPP note, consistent with its terms, on January 6, 2021. The Company made principal payments on the finance lease obligations of approximately \$127,000 during 2020.

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. 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, 2020. 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>	December 31, <u>2020</u>	December 31, <u>2019</u>
Current Assets		
Cash	\$ 2,917,551	\$ 1,828,397
Accounts receivable, less allowance for doubtful accounts	459,471	348,524
Inventories	1,180,359	2,749,038
Prepaid expenses	131,333	105,464
Total current assets	<u>4,688,714</u>	<u>5,031,423</u>
Property and Equipment, at cost	9,009,779	8,989,157
Less accumulated depreciation	<u>(7,121,647)</u>	<u>(7,036,955)</u>
	1,888,132	1,952,202
Right of use asset, net	357,396	434,492
Deferred tax asset	1,019,317	-
Other assets	<u>96,623</u>	<u>86,958</u>
Other Assets	<u>1,473,336</u>	<u>521,450</u>
TOTAL ASSETS	<u>\$ 8,050,182</u>	<u>\$ 7,505,075</u>
 <u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Current Liabilities		
Finance lease obligations	\$ 160,416	\$ 98,524
Notes payable obligations	252,577	-
Operating lease obligations	86,844	80,669
Accounts payable	147,284	254,004
Customer deposits	1,010,236	2,408,837
Accrued expenses	<u>220,728</u>	<u>197,061</u>
Total current liabilities	1,878,085	3,039,095
Finance lease obligations, net of current portion	243,218	125,311
Notes payable, net of current portion	72,723	-
Operating lease obligations, net of current portion	<u>304,989</u>	<u>391,833</u>
Total liabilities	2,499,015	3,556,239
Total Shareholders' Equity	<u>5,551,167</u>	<u>3,948,836</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 8,050,182</u>	<u>\$ 7,505,075</u>

SCI ENGINEERED MATERIALS, INC.

STATEMENTS OF OPERATIONS

FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2020 AND 2019

	THREE MONTHS ENDED DEC. 31,		TWELVE MONTHS ENDED DEC. 31,	
	2020	2019	2020	2019
Revenue	\$ 3,356,639	\$ 2,938,200	\$ 10,896,099	\$ 12,950,387
Cost of revenue	<u>2,564,610</u>	<u>2,579,128</u>	<u>8,697,809</u>	<u>10,741,824</u>
Gross profit	792,029	359,072	2,198,290	2,208,563
General and administrative	329,790	304,538	1,148,615	1,261,958
Research and development	77,222	82,820	337,823	366,492
Marketing and sales	<u>51,472</u>	<u>47,828</u>	<u>195,505</u>	<u>249,255</u>
Income (loss) from operations	333,545	(76,114)	516,347	330,858
Interest expense	<u>11,660</u>	<u>4,448</u>	<u>32,087</u>	<u>22,468</u>
Income (loss) before provision for income taxes	321,885	(80,562)	484,260	308,390
Income tax (benefit) expense	<u>(1,019,403)</u>	<u>(1,821)</u>	<u>(1,017,503)</u>	<u>3,039</u>
Net income (loss)	1,341,288	(78,741)	1,501,763	305,351
Dividends on preferred stock	<u>6,038</u>	<u>6,038</u>	<u>24,152</u>	<u>24,152</u>
INCOME (LOSS) APPLICABLE TO COMMON SHARES	<u>\$ 1,335,250</u>	<u>\$ (84,779)</u>	<u>\$ 1,477,611</u>	<u>\$ 281,199</u>
Earnings per share - basic and diluted				
Income (loss) per common share				
Basic	\$ <u>0.30</u>	\$ <u>(0.02)</u>	\$ <u>0.33</u>	\$ <u>0.06</u>
Diluted	\$ <u>0.30</u>	\$ <u>(0.02)</u>	\$ <u>0.33</u>	\$ <u>0.06</u>
Weighted average shares outstanding				
Basic	<u>4,458,077</u>	<u>4,359,349</u>	<u>4,423,125</u>	<u>4,328,210</u>
Diluted	<u>4,475,828</u>	<u>4,359,349</u>	<u>4,434,000</u>	<u>4,362,327</u>

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
CASH PROVIDED BY (USED IN):		
Operating activities	\$ 991,032	\$ 532,207
Investing activities	(75,852)	(379,603)
Financing activities	173,974	(127,046)
NET INCREASE IN CASH	1,089,154	25,558
CASH - Beginning of period	1,828,397	1,802,839
CASH - End of period	\$ 2,917,551	\$ 1,828,397

RECONCILIATION OF GAAP TO NON-GAAP MEASURES

FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2020 AND 2019

	Three months ended Dec. 31,		Twelve months ended Dec. 31	
	2020	2019	2020	2019
Net income (loss)	\$ 1,341,288	\$ (78,741)	\$ 1,501,763	\$ 305,351
Interest expense	11,660	4,448	32,087	22,468
Income tax (benefit) expense	(1,019,403)	(1,821)	(1,017,503)	3,039
Depreciation and amortization expense	117,131	114,218	455,747	431,464
EBITDA	450,676	38,104	972,094	762,322
Stock based compensation	31,176	31,708	124,720	130,009
Adjusted EBITDA	\$ 481,852	\$ 69,812	\$ 1,096,814	\$ 892,331