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## **SCI Engineered Materials, Inc. Reports 2021 Second Quarter and Year-to-Date Results**

COLUMBUS, Ohio (July 29, 2021) SCI Engineered Materials, Inc. (“SCI”) (SCIA: OTCQB), today reported financial results for the three and six months ended June 30, 2021. SCI is 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.

Jeremy Young, President and Chief Executive Officer, stated “The increase in second quarter results benefited from higher gross profit and a refundable credit related to certain employment taxes. Overall business conditions continue to improve, and new customers are being added in additional niche markets. As we move beyond the impacts of COVID-19, the Company is positioned for significant growth in total revenue and profitability in the third quarter of 2021.”

Mr. Young added, “During the second quarter we began to purchase additional manufacturing equipment pursuant to the \$800,000 equipment lease agreement entered into earlier this year. Some of the items were recently installed, and the remaining equipment is expected to be received and become operational during the second half of 2021. These additions enable us to increase manufacturing efficiencies, produce new products and increase total output as we continue to execute our growth strategy.”

### *Total Revenue*

Higher volume and product mix partially offset lower pricing for the first six months and second quarter of 2021 compared to a year ago. For the six months ended June 30, 2021, total revenue decreased 17% to \$4,994,359 from \$6,045,382 in 2020, while 2021 second

quarter total revenue decreased 24% to \$1,972,049 from \$2,606,587 the prior year. Total revenue for the 2021 third quarter is anticipated to increase significantly on a sequential basis and compared to the 2020 third quarter based on orders received during the first half of this year.

Order backlog of \$6.3 million on June 30, 2021, was approximately 11% higher than the March 31, 2021, amount and was 75% above the \$3.6 million on the same date in 2020.

#### *Employee Retention Credit*

The Company recognized an Employee Retention Credit (ERC) of \$407,200 and \$151,700, respectively, during the first six months of 2021 and this year's second quarter. Of these amounts, \$238,300 and \$87,300 were included in gross profit for the six months and three months ended June 30, 2021, respectively, while \$168,900 and \$64,400, respectively, was included in operating expenses for the first half of this year and the 2021 second quarter. Enactment of the American Rescue Plan in March 2021 extended availability of the ERC for all four quarters of 2021.

#### *Gross profit*

Gross profit for the first half of 2021 and second quarter of this year benefited from higher volume, product mix and improved manufacturing efficiency. For the six months ended June 30, 2021, gross profit increased 44% to \$1,365,590 from \$947,122 a year ago. The 2021 second quarter gross profit increased approximately 29% to \$562,554 from \$437,784 for the same period in 2020. Excluding the Employee Retention Credit (ERC), gross profit increased 19% for the first half of 2021 and 9% for the 2021 second quarter versus the comparable periods last year.

#### *Operating expenses*

Operating expenses (general and administrative expense, research and development expense, and marketing and sales expense) decreased 8% to \$762,012 for the six months ended June 30, 2021, from \$831,877 for the same period in 2020. For the 2021 second quarter, operating expenses decreased 6% to \$384,519 from \$410,024 last year.

The decrease in operating expenses for the first half of 2021 and second quarter of this year was attributable to qualifying compensation expenses related to the Employee Retention Credit. Excluding the ERC, operating expenses for the six months and three months ended June 30, 2021, increased 12% and 9%, respectively, versus the prior year.

#### *EBITDA\**

Earnings before interest, income taxes, depreciation, and amortization (EBITDA) increased to \$1,161,774 for the first half of 2021 from \$343,925 for the same period last year. For the 2021 second quarter, EBITDA increased to \$295,826 from \$142,750 a year ago. The increase for both periods in 2021 was primarily due to higher gross profit and the ERC. EBITDA for the first six months of 2021 also benefited from gain on extinguishment of debt in January 2021 related to forgiveness of the Company's \$325,300 Paycheck Protection Program (PPP) loan.

#### *Income Applicable to Common Stock*

Income applicable to common stock increased to \$762,057, or \$0.17 per share, for the first six months of 2021 from \$89,900, or \$0.02 per share, last year. The 2021 second quarter income applicable to common stock was \$115,510, or \$0.03 per share, versus \$14,422, or \$0.00 per share, a year ago. The increases for both periods of 2021 versus a year ago were principally due to higher gross profit and the ERC. The 2021 first half amount also benefited from forgiveness of the Company's PPP Loan in January 2021.

#### *Net Cash and Total Debt Outstanding*

On June 30, 2021, net cash was \$3.5 million compared to \$2.9 million on December 31, 2020, and \$1.9 million on the same date in 2020.

Total debt outstanding was \$316,212 on June 30, 2021, compared to \$728,934 at 2020 year-end. Key factors contributing to the 57% decrease included forgiveness of the Company's \$325,300 PPP loan in January 2021 and principal payments of \$87,422 on finance lease obligations during the first half of 2021.

*About SCI Engineered Materials, Inc.*

SCI Engineered Materials is a global supplier and manufacturer of advanced materials for PVD thin film applications who works closely with end user and OEMs to develop innovative, customized solutions. Additional information is available at [www.sciengineeredmaterials.com](http://www.sciengineeredmaterials.com) or follow SCI Engineered Materials, Inc. at:

<https://www.linkedin.com/company/sci-engineered-materials.-inc>

<https://www.facebook.com/sciengineeredmaterials/>

<https://www.twitter.com/SciMaterials>

\*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**

**ASSETS**

	<b>June 30, <u>2021</u></b>	<b>December 31, <u>2020</u></b>
	<b>(UNAUDITED)</b>	
Current Assets		
Cash	\$ 3,497,202	\$ 2,917,551
Accounts receivable, less allowance for doubtful accounts	604,026	459,471
Inventories	4,245,768	1,180,359
Prepaid expenses	282,609	131,333
Total current assets	<u>8,629,605</u>	<u>4,688,714</u>
Property and Equipment, at cost	8,930,608	9,009,779
Less accumulated depreciation	<u>(6,714,701)</u>	<u>(7,121,647)</u>
	2,215,907	1,888,132
Right of use asset, net	316,604	357,396
Deferred tax asset	888,315	1,019,317
Other assets	91,760	96,623
Total other assets	<u>1,296,679</u>	<u>1,473,336</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 12,142,191</u></b>	<b><u>\$ 8,050,182</u></b>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

Current Liabilities		
Short term debt	\$ 120,820	\$ 412,993
Operating lease, current	93,090	86,844
Accounts payable	434,150	147,284
Customer deposits	4,428,665	1,010,236
Accrued expenses	283,184	220,728
Total current liabilities	<u>5,359,909</u>	<u>1,878,085</u>
Finance lease obligations, net of current portion	195,392	243,218
Notes payable, net of current portion	-	72,723
Operating lease obligations, net of current portion	255,179	304,989
Total liabilities	<u>5,810,480</u>	<u>2,499,015</u>
Total Shareholders' Equity	<u>6,331,711</u>	<u>5,551,167</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b><u>\$ 12,142,191</u></b>	<b><u>\$ 8,050,182</u></b>

SCI ENGINEERED MATERIALS, INC.

STATEMENTS OF OPERATIONS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2021 AND 2020  
(UNAUDITED)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Revenue	\$ 1,972,049	\$ 2,606,587	\$ 4,994,359	\$ 6,045,382
Cost of revenue	<u>1,409,495</u>	<u>2,168,803</u>	<u>3,628,769</u>	<u>5,098,260</u>
Gross profit	562,554	437,784	1,365,590	947,122
General and administrative expense	283,708	272,216	571,589	555,381
Research and development expense	54,377	90,421	92,596	177,325
Marketing and sales expense	<u>46,434</u>	<u>47,387</u>	<u>97,827</u>	<u>99,171</u>
Income from operations	178,035	27,760	603,578	115,245
Gain on extinguishment of debt	-	-	(325,300)	-
Interest expense	<u>9,014</u>	<u>7,300</u>	<u>16,652</u>	<u>11,369</u>
Income before provision for income taxes	169,021	20,460	912,226	103,876
Provision for income tax expense	<u>47,473</u>	<u>-</u>	<u>138,093</u>	<u>1,900</u>
Net income	121,548	20,460	774,133	101,976
Dividends on preferred stock	<u>6,038</u>	<u>6,038</u>	<u>12,076</u>	<u>12,076</u>
<b>INCOME APPLICABLE TO COMMON SHARES</b>	<u>\$ 115,510</u>	<u>\$ 14,422</u>	<u>\$ 762,057</u>	<u>\$ 89,900</u>
Earnings per share - basic and diluted				
Income per common share				
Basic	\$ <u>0.03</u>	\$ <u>0.00</u>	\$ <u>0.17</u>	\$ <u>0.02</u>
Diluted	\$ <u>0.03</u>	\$ <u>0.00</u>	\$ <u>0.17</u>	\$ <u>0.02</u>
Weighted average shares outstanding				
Basic	<u>4,497,903</u>	<u>4,411,714</u>	<u>4,488,913</u>	<u>4,398,856</u>
Diluted	<u>4,526,062</u>	<u>4,418,325</u>	<u>4,516,478</u>	<u>4,406,478</u>

**SCI ENGINEERED MATERIALS, INC.**

**CONDENSED STATEMENTS OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2021 AND 2020**

	2021	2020
<b>CASH PROVIDED BY (USED IN):</b>		
Operating activities	\$ 1,249,462	\$ 8,818
Investing activities	(558,237)	(164,936)
Financing activities	(111,574)	252,528
<b>NET INCREASE IN CASH</b>	579,651	96,410
<b>CASH - Beginning of period</b>	2,917,551	1,828,397
<b>CASH - End of period</b>	\$ 3,497,202	\$ 1,924,807

**RECONCILIATION OF GAAP TO NON-GAAP MEASURES**

**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2021 AND 2020**

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Net income	\$ 121,548	\$ 20,460	\$ 774,133	\$ 101,976
Interest	9,014	7,300	16,652	11,369
Income taxes	47,473	-	138,093	1,900
Depreciation and amortization	117,791	114,990	232,896	228,680
<b>EBITDA</b>	295,826	142,750	1,161,774	343,925
Stock based compensation	8,675	31,182	30,563	62,362
<b>Adjusted EBITDA</b>	\$ 304,501	\$ 173,932	\$ 1,192,337	\$ 406,287