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SCI Engineered Materials, Inc. Reports 2021 Third Quarter and Year-to-Date Results

COLUMBUS, Ohio (October 27, 2021) SCI Engineered Materials, Inc. (“SCI”) (SCIA: OTCQB), today reported financial results for the three months and nine months ended September 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 “Our 2021 third quarter results were primarily driven by record total revenue of \$5.2 million, which reflected acceleration in orders received throughout the first nine months of this year. The Company continues to benefit from further customer diversification involving multiple markets including photonics, defense, and aerospace, as we increase our visibility and leverage SCI’s materials expertise. Building on our strong year-to-date results, we anticipate record earnings per share for the full-year 2021.”

Mr. Young added, “Global supply chain and semiconductor chip shortage issues continue to impact markets we serve. We are adapting to these developments, conducting supply chain risk assessments, and pursuing innovative logistics solutions. Interest in domestic manufacturing is increasing and we are well positioned to fulfill customers’ needs as that trend continues.”

Total Revenue

Total revenue benefited from higher volume and improved product mix for the nine months and three months ended September 30, 2021. Raw material pricing increased in the 2021 third quarter reversing a recent trend of lower prices during the past several quarters.

Total revenue for the first nine months of 2021 increased 35% to \$10,205,528 from \$7,539,460 last year. For the 2021 third quarter, total revenue was a record \$5,211,169 compared to \$1,494,078 a year ago. Volume is anticipated to remain stable for the 2021 fourth quarter, while total revenue is expected to be similar to the fourth quarter of 2020 primarily due to lower raw material pricing.

We continue to receive increased orders from customers in multiple markets despite uncertain economic and market conditions. While a substantial portion of the Company's backlog of \$6.3 million on June 30, 2021 was shipped during the third quarter, order backlog was \$3.6 million on September 30, 2021 versus the same amount a year ago.

ERC and ARP Credits

The Company recorded tax credits pursuant to the Taxpayer Certainty and Disaster Relief Act (ERC) and the American Rescue Plan Act of 2021 (ARP) during the nine months and three months ended September 30, 2021, pursuant to federal legislation enacted during the past two years.

The Company recognized ERC and ARP credits of \$571,962 and \$164,755, respectively, during the first nine months of 2021 and this year's third quarter. Of these amounts, \$328,356 and \$90,082 was reflected in gross profit for the nine months and three months ended September 30, 2021, respectively. Operating expenses included ERC and ARP credits of \$243,606 and \$74,673, respectively, for the nine months and three months ended September 30, 2021.

Gross profit

Solid increases in gross profit for the first nine months of 2021 and this year's third quarter were attributable to higher volume, improved product mix and increased manufacturing efficiency. Gross profit was \$2,667,958 for the 2021 year-to-date period compared to \$1,406,261 last year, while gross profit for the 2021 third quarter increased to a record \$1,302,368 from \$459,139 a year ago. Excluding the ERC and ARP credits, gross profit

increased 66% for the nine months ended September 30, 2021, and 164% for the third quarter of 2021 compared to the same periods in 2020.

Operating expenses

Operating expenses (general and administrative, research and development, and marketing and sales) for the first nine months of 2021 and third quarter of this year included higher year-end accruals, increased sales staff, and marketing expenses compared to the same periods last year. For the year-to-date period in 2021, operating expenses decreased 3% to \$1,187,353 from a year ago due to ERC and ARP credits. Operating expenses for the 2021 third quarter were \$425,341 or nearly 9% higher, including ERC and ARP credits, compared to the 2020 third quarter. Excluding the ERC and ARP credits, operating expenses for the nine months and three months ended September 30, 2021, increased 17% and 28%, respectively. Comparisons with the same periods a year ago partially reflect actions taken during 2020 in response to the COVID-19 pandemic.

*EBITDA**

Earnings before interest, income taxes, depreciation, and amortization (EBITDA) increased to \$2,135,009 for the nine months of 2021 from \$521,418 a year ago. The Company's 2021 third quarter EBITDA increased to \$973,235 from \$177,493 the prior year. The increases for both periods in 2021 compared to a year ago were due to higher total revenue, increased gross profit, plus the ERC and ARP credits. Additionally, EBITDA for the nine months ended September 30, 2021, 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 Shares

Income applicable to common shares increased to \$1,424,701, or \$0.32 per share, for the first nine months of 2021 from \$142,361, or \$0.03 per share, a year ago. The 2021 third quarter income applicable to common shares was \$662,644, or \$0.15 per share, compared to \$52,461, or \$0.01 per share, for the same period in 2020. The 2021

increases for both periods compared to 2020 were principally due to higher 2021 third quarter total revenue, increased gross profit, and the ERC and ARP credits for the nine months and three months ended September 30, 2021. Additionally, 2021 year-to-date income applicable to common shares benefited from forgiveness of the Company's PPP Loan in January 2021.

Net Cash and Total Debt Outstanding

On September 30, 2021, net cash was more than \$3.9 million compared to \$2.9 million on December 31, 2020, an increase of approximately 36%.

Total debt outstanding was \$279,919 on September 30, 2021, versus \$728,934 at 2020 year-end. Key factors contributing to the 62% decrease since December 31, 2020, include forgiveness of the Company's \$325,300 PPP loan in January 2021 and principal payments of \$123,715 related to finance lease obligations paid during the first nine months 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 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

	September 30, <u>2021</u>	December 31, <u>2020</u>
	(UNAUDITED)	
Current Assets		
Cash	\$ 3,953,385	\$ 2,917,551
Accounts receivable, less allowance for doubtful accounts	758,177	459,471
Inventories	1,982,028	1,180,359
Prepaid expenses	99,523	131,333
Total current assets	6,793,113	4,688,714
Property and Equipment, at cost	8,885,905	9,009,779
Less accumulated depreciation	(6,716,883)	(7,121,647)
Property and Equipment, net	2,169,022	1,888,132
Right of use asset, net	295,640	357,396
Deferred tax asset	703,132	1,019,317
Other assets	90,656	96,623
Total other assets	1,089,428	1,473,336
TOTAL ASSETS	\$ 10,051,563	\$ 8,050,182

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities		
Short term debt	\$ 108,832	\$ 412,993
Operating lease, current	95,187	86,844
Accounts payable	312,655	147,284
Customer deposits	1,754,558	1,010,236
Accrued expenses	369,450	220,728
Total current liabilities	2,640,682	1,878,085
Long term debt	171,087	315,941
Operating lease, long term	230,731	304,989
Total liabilities	3,042,500	2,499,015
Total Shareholders' Equity	7,009,063	5,551,167
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 10,051,563	\$ 8,050,182

SCI ENGINEERED MATERIALS, INC.

STATEMENTS OF OPERATIONS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020
(UNAUDITED)

	THREE MONTHS ENDED SEPT. 30,		NINE MONTHS ENDED SEPT. 30,	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Revenue	\$ 5,211,169	\$ 1,494,078	\$ 10,205,528	\$ 7,539,460
Cost of revenue	<u>3,908,801</u>	<u>1,034,939</u>	<u>7,537,570</u>	<u>6,133,199</u>
Gross profit	1,302,368	459,139	2,667,958	1,406,261
General and administrative expense	306,997	263,444	878,586	818,825
Research and development expense	56,612	83,276	149,208	260,601
Marketing and sales expense	<u>61,732</u>	<u>44,862</u>	<u>159,559</u>	<u>144,033</u>
Income from operations	877,027	67,557	1,480,605	182,802
Gain on extinguishment of debt	-	-	(325,300)	-
Interest expense	<u>8,156</u>	<u>9,058</u>	<u>24,808</u>	<u>20,427</u>
Income before provision for income taxes	868,871	58,499	1,781,097	162,375
Provision for income tax expense	<u>200,189</u>	<u>-</u>	<u>338,282</u>	<u>1,900</u>
Net income	668,682	58,499	1,442,815	160,475
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>\$ 662,644</u>	<u>\$ 52,461</u>	<u>\$ 1,424,701</u>	<u>\$ 142,361</u>
Earnings per share - basic and diluted				
Income per common share				
Basic	\$ <u>0.15</u>	\$ <u>0.01</u>	\$ <u>0.32</u>	\$ <u>0.03</u>
Diluted	\$ <u>0.15</u>	\$ <u>0.01</u>	\$ <u>0.32</u>	\$ <u>0.03</u>
Weighted average shares outstanding				
Basic	<u>4,500,256</u>	<u>4,436,185</u>	<u>4,492,736</u>	<u>4,411,390</u>
Diluted	<u>4,531,523</u>	<u>4,447,059</u>	<u>4,521,746</u>	<u>4,420,272</u>

SCI ENGINEERED MATERIALS, INC.

CONDENSED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
CASH PROVIDED BY (USED IN):		
Operating activities	\$ 1,780,698	\$ 504,561
Investing activities	(596,997)	(45,960)
Financing activities	<u>(147,867)</u>	<u>216,910</u>
NET INCREASE IN CASH	1,035,834	675,511
CASH - Beginning of period	<u>2,917,551</u>	<u>1,828,397</u>
CASH - End of period	<u>\$ 3,953,385</u>	<u>\$ 2,503,908</u>

RECONCILIATION OF GAAP TO NON-GAAP MEASURES

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021 AND 2020

	Three months ended Sept. 30,		Nine months ended Sept. 30,	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Net income	\$ 668,682	\$ 58,499	\$ 1,442,815	\$ 160,475
Interest	8,156	9,058	24,808	20,427
Income taxes	200,189	-	338,282	1,900
Depreciation and amortization	<u>96,208</u>	<u>109,936</u>	<u>329,104</u>	<u>338,616</u>
EBITDA	973,235	177,493	2,135,009	521,418
Stock based compensation	<u>8,670</u>	<u>31,182</u>	<u>39,233</u>	<u>93,544</u>
Adjusted EBITDA	<u>\$ 981,905</u>	<u>\$ 208,675</u>	<u>\$ 2,174,242</u>	<u>\$ 614,962</u>