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## **SCI Engineered Materials, Inc. Reports 2021 Fourth Quarter and Full Year Results**

COLUMBUS, Ohio (February 4, 2022) SCI Engineered Materials, Inc. (“SCI”) (SCIA: OTCQB), today reported financial results for the three months and twelve months ended December 31, 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, said “We achieved record revenue and earnings per share in 2021, ended the year with record cash, and also strengthened our balance sheet. Plans are being implemented to build upon these successes, which include increasing SCI’s presence in dynamic industry niches, adding new customers and developing innovative, market-driven applications. These initiatives enable us to leverage our manufacturing, bonding, and custom powder solutions capabilities.”

Mr. Young added, “The Company and its customers continue to be impacted by COVID variants, global supply chain issues and semiconductor chip shortages, which are currently expected to continue well into 2022. SCI has achieved record annual results during the past two years despite these factors contributing to uneven quarterly performance. We are encouraged by the volume of orders received during the first month of this year, which have accelerated since year-end as our customers continue to manage their businesses and adapt to changing market conditions. As this year progresses, SCI’s performance will be driven by well-defined and flexible growth plans as we continue to benefit from our improved financial and market positions.”

### *Total Revenue*

Total revenue increased 23% to a record \$13,448,021 for the twelve months ended December 31, 2021, compared to the prior year. This was attributable to increased volume and higher raw material pricing, particularly during the second half of 2021. For the 2021 fourth quarter, total revenue was \$3,242,493 versus \$3,356,639 a year ago as customers adapted their order patterns to market uncertainties including COVID related variants.

Order backlog was \$3.3 million on December 31, 2021, compared to \$2.6 million on the same date a year ago.

### *ERC and ARP Tax Credits*

The Employee Retention Credit (ERC) was enacted in March 2020 by the CARES Act and extended under the Taxpayer Certainty and Disaster Relief Act enacted in December 2020. The American Rescue Plan (ARP) Act of 2021 permitted eligible employers with fewer than 500 employees an additional tax credit related to COVID-19 vaccinations. For the first three quarters of 2021 the Company recorded ERC and ARC tax credits of \$571,962. Of that amount, \$328,356 was recognized in gross profit and \$243,606 was recognized in operating expenses. Those tax credits were no longer available to the Company after September 30, 2021, pursuant to the Infrastructure Investment and Jobs Act enacted in November 2021.

### *Gross profit*

Gross profit increased 61% to \$3,529,255 for the 2021 full year from \$2,198,290 for 2020, benefiting from the solid increase in total revenue, product mix, improved manufacturing efficiency, plus the tax credits noted above. Excluding those tax credits, gross profit increased approximately 46%.

The Company's 2021 fourth quarter gross profit increased 9% to \$861,297 from \$792,029 for the same period a year ago principally due to product mix and higher raw material pricing.

#### *Operating expenses*

Operating expenses (general and administrative, research and development (R&D), and marketing and sales) increased 4% for the 2021 full year compared to the prior year. General and administrative expense increased 11% due to higher compensation and professional fees which were partially offset by the ERC and ARP tax credits. The year-over-year decline in R&D expense for 2021 was due to the ERC and ARP tax credits. Marketing and sales expense increased 20% for the 2021 full year due to additional staff, outside consulting expense and resumption of travel involving in-person meetings and two industry tradeshows. Excluding the ERC tax credits recorded during the first nine months of 2021, operating expenses for the 2021 full year were \$1,994,955 versus \$1,681,943 for the twelve months ended December 31, 2020.

Operating expenses were \$563,996 for the 2021 fourth quarter compared to \$458,484 a year ago. This increase was due to higher wages and incentive compensation, increased sales and marketing activities, and one-time expenditures related to the Convertible Preferred Stock, Series B redemption.

#### *EBITDA\**

Earnings before interest, income taxes, depreciation, and amortization (EBITDA) increased 161% to \$2,536,686 for the full-year 2021 from \$972,094 a year ago. The increased gross profit of \$1.0 million (exclusive of ERC credit) and the impact of the ERC credits of \$0.6 million were the two primary factors in the increase in EBITDA of \$1.6 million. Higher income tax expense for 2021 was the key factor contributing to the year-over-year increase. EBITDA for the 2021 fourth quarter was \$401,677 compared to \$450,676 for the same period the prior year.

### *Income Taxes*

Income tax expense was \$392,242 for the 2021 full year compared to a tax benefit of \$1,017,503 the prior year due to recognition of a \$1,019,317 deferred tax asset the prior year. For the 2021 fourth quarter, income tax expense was \$53,960 versus the income tax benefit of \$1,019,403 for the same period in 2020.

### *Income Applicable to Common Stock*

Income applicable to common stock increased 12% to a record \$1,654,672 (\$0.37 per share), for the twelve months ended December 31, 2021, from \$1,477,611 (\$0.33 per share), the prior year. This increase was principally due to record 2021 total revenue, higher gross profit, ERC and ARP tax credits for the first nine months of the year and forgiveness of the Company's Paycheck Protection Program (PPP) loan in January 2021. The income tax benefit of \$1,017,503 noted above represented a significant portion of income applicable to common stock for 2020.

For the 2021 fourth quarter, income applicable to common stock was \$229,971 (\$0.05 per share) compared to \$1,335,250 (\$0.30 per share). Excluding the one-time income tax benefit recognized in the 2020 fourth quarter, income applicable to common stock was \$315,933 (\$0.07 per share).

### *Net Cash and Total Debt Outstanding*

On December 31, 2021, net cash was \$4,140,942 compared to \$2,917,551 on December 31, 2020, an increase of approximately 42%.

Total debt outstanding was \$243,218 on December 31, 2021, compared to \$728,934 on the same date a year ago. Key factors contributing to the 67% decrease since 2020 year-end include forgiveness of the Company's \$325,300 PPP loan in January 2021 and principal payments of \$160,416 related to finance lease obligation payments during 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, 2021. 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>December 31, <u>2021</u></b>	<b>December 31, <u>2020</u></b>
Current Assets		
Cash	\$ 4,140,942	\$ 2,917,551
Accounts receivable, less allowance for doubtful accounts	531,577	459,471
Inventories	1,073,218	1,180,359
Prepaid expenses	678,357	131,333
Total current assets	<u>6,424,094</u>	<u>4,688,714</u>
Property and Equipment, at cost	8,966,488	9,009,779
Less accumulated depreciation	<u>(6,809,850)</u>	<u>(7,121,647)</u>
Property and Equipment, net	<u>2,156,638</u>	<u>1,888,132</u>
Right of use asset, net	274,298	357,396
Deferred tax asset	663,820	1,019,317
Other assets	89,552	96,623
Total other assets	<u>1,027,670</u>	<u>1,473,336</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 9,608,402</u></b>	<b><u>\$ 8,050,182</u></b>

**LIABILITIES AND SHAREHOLDERS' EQUITY**

Current Liabilities		
Finance lease obligations	\$ 96,702	\$ 160,416
Notes payable obligations	-	252,577
Operating lease obligations	97,292	86,844
Accounts payable	250,383	147,284
Customer deposits	1,724,556	1,010,236
Accrued expenses	348,026	220,728
Total current liabilities	<u>2,516,959</u>	<u>1,878,085</u>
Finance lease obligations, net of current portion	146,516	243,218
Notes payable, net of current portion	-	72,723
Operating lease obligations, net of current portion	<u>205,623</u>	<u>304,989</u>
Total liabilities	<u>2,869,098</u>	<u>2,499,015</u>
Total Shareholders' Equity	<u>6,739,304</u>	<u>5,551,167</u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b><u>\$ 9,608,402</u></b>	<b><u>\$ 8,050,182</u></b>

SCI ENGINEERED MATERIALS, INC.

STATEMENTS OF OPERATIONS

FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2021 AND 2020

	THREE MONTHS ENDED DEC. 31,		TWELVE MONTHS ENDED DEC. 31,	
	2021	2020	2021	2020
Revenue	\$ 3,242,493	\$ 3,356,639	\$ 13,448,021	\$ 10,896,099
Cost of revenue	<u>2,381,196</u>	<u>2,564,610</u>	<u>9,918,766</u>	<u>8,697,809</u>
Gross profit	861,297	792,029	3,529,255	2,198,290
General and administrative	401,993	329,790	1,280,579	1,148,615
Research and development	86,471	77,222	235,679	337,823
Marketing and sales	<u>75,532</u>	<u>51,472</u>	<u>235,091</u>	<u>195,505</u>
Income from operations	297,301	333,545	1,777,906	516,347
Gain on extinguishment of debt	-	-	325,300	-
Interest expense	<u>7,332</u>	<u>11,660</u>	<u>32,140</u>	<u>32,087</u>
Income before provision for income taxes	289,969	321,885	2,071,066	484,260
Income tax expense (benefit)	<u>53,960</u>	<u>(1,019,403)</u>	<u>392,242</u>	<u>(1,017,503)</u>
Net income	236,009	1,341,288	1,678,824	1,501,763
Dividends on preferred stock	<u>6,038</u>	<u>6,038</u>	<u>24,152</u>	<u>24,152</u>
<b>INCOME APPLICABLE TO COMMON STOCK</b>	<b>\$ <u>229,971</u></b>	<b>\$ <u>1,335,250</u></b>	<b>\$ <u>1,654,672</u></b>	<b>\$ <u>1,477,611</u></b>
Earnings per share - basic and diluted				
Income per common share				
Basic	\$ <u>0.05</u>	\$ <u>0.30</u>	\$ <u>0.37</u>	\$ <u>0.33</u>
Diluted	\$ <u>0.05</u>	\$ <u>0.30</u>	\$ <u>0.37</u>	\$ <u>0.33</u>
Weighted average shares outstanding				
Basic	<u>4,504,407</u>	<u>4,458,077</u>	<u>4,495,678</u>	<u>4,423,125</u>
Diluted	<u>4,535,704</u>	<u>4,475,828</u>	<u>4,523,690</u>	<u>4,434,000</u>

**SCI ENGINEERED MATERIALS, INC.**

**CONDENSED STATEMENTS OF CASH FLOWS**

**FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2021 AND 2020**

	<b>2021</b>	<b>2020</b>
<b>CASH PROVIDED BY (USED IN):</b>		
Operating activities	\$ 2,610,548	\$ 991,032
Investing activities	(688,151)	(75,852)
Financing activities	(699,006)	173,974
<b>NET INCREASE IN CASH</b>	1,223,391	1,089,154
<b>CASH - Beginning of period</b>	2,917,551	1,828,397
<b>CASH - End of period</b>	\$ 4,140,942	\$ 2,917,551

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

**FOR THE THREE AND TWELVE MONTHS ENDED DECEMBER 31, 2021 AND 2020**

	Three months ended Dec. 31,		Twelve months ended Dec. 31,	
	2021	2020	2021	2020
Net income	\$ 236,009	\$ 1,341,288	\$ 1,678,824	\$ 1,501,763
Interest expense	7,332	11,660	32,140	32,087
Income tax expense (benefit)	53,960	(1,019,403)	392,242	(1,017,503)
Depreciation and amortization expense	104,376	117,131	433,480	455,747
<b>EBITDA</b>	401,677	450,676	2,536,686	972,094
Stock based compensation	8,670	31,176	47,903	124,720
<b>Adjusted EBITDA</b>	\$ 410,347	\$ 481,852	\$ 2,584,589	\$ 1,096,814