



2017 ANNUAL REPORT

to the stockholders of
UNITED-GUARDIAN, INC.

April 13, 2018

Dear Stockholder,

I am pleased to report that sales and earnings rose substantially in 2017, with sales increasing by 21% from \$11,144,462 in 2016 to \$13,434,460 in 2017, and net income increasing by 49% from \$2,581,142 (\$0.56 per share) in 2016 to \$3,844,290 (\$0.84 per share) in 2017. Sales of our personal care products alone increased from \$4,916,630 in 2016 to \$6,868,227 this past year, an increase of 40%.

The primary reason for the increase in sales in 2017 was the resumption of sales of one of our Lubrajel® products in China. Those of you who have been stockholders of ours for a while are probably aware that in the fourth quarter of 2015 a regulatory issue in China negatively impacted the sales in China of face mask products, some of which contained Lubrajel. While the regulatory issue had nothing to do with our product, it resulted in many finished products being withdrawn from the market while they were being reformulated to comply with Chinese regulations. Since our distributor for China, Ashland Specialty Ingredients (“ASI”), had based its inventory requirements on the demand it had been experiencing prior to this suspension of sales, the result was a significant amount of excess inventory that needed to be worked off before ASI could resume its purchases for China. This significantly impacted our sales for most of 2016. The situation in China was rectified by August 2016, after which steady orders resumed.

In addition to the increase in sales of our personal care products, our two pharmaceutical products, Renacidin® Irrigation Solution and Clorpectin®, also contributed to stronger sales in 2017, with sales of these products increasing by 16%. Most of that increase was attributable to an increase in Renacidin sales, which increased by 18% from last year. The increase was due to the introduction in April 2016 of our new 30mL single-dose form of the product, which was engineered to dispense the product directly into an indwelling catheter, eliminating the need to use a separate syringe. We recently launched a new web site dedicated to Renacidin (www.renacidin.com), and are working with a web consultant to expand our internet presence for this product. We are optimistic that these efforts will increase both patient and physician awareness of the product and lead to a gradual increase in sales in the coming years.

While we are very pleased with the significant increase in the sales of our personal care products in 2017, it is important to keep in mind that there continues to be significant competition for our cosmetic ingredients, especially from some Asian manufacturers selling products similar to ours at lower prices. We are actively working with our marketing partners to make our products as competitive as possible in this increasingly competitive marketplace. We still believe that our extensive portfolio of products, as well as our reputation for quality, will enable us to remain competitive and grow our market share. We also believe that if the U.S. dollar continues to weaken, as it did during 2017, our products will become more competitive in many markets.

We are also working closely with our global marketing partners to develop new and innovative products, especially for the personal care market. Our primary focus over the past few years has been on the development of cosmetic ingredients that can be used to formulate “natural” products. The first product developed for this line was our “Lubrajel Natural”, which was followed by Lubrajel Marine, a product that was developed jointly by us and ASI and for that reason is being marketed on a global basis exclusively by ASI. It is a product that both we and ASI feel has significant market potential. This formulation was developed using only ingredients that can be used in “natural” and “organic” products, which in this case includes ingredients sourced from marine vegetation. Like the original Lubrajel Natural, this product has received an “Attestation of Conformity” (“Attestation”) from Ecocert, one of the global organizations responsible for confirming that cosmetic ingredients conform to strict international standards for use in natural and organic cosmetic products. In the case of Lubrajel Marine, the product conforms with both the older Ecocert standard as well as the newer Cosmetic Organic Standard (“COSMOS”) that replaced it. We believe that these Attestations will make these products even more attractive to potential customers looking to develop “natural” cosmetic products. The Lubrajel Marine has been well received, and we are starting to see some small orders coming in as companies begin formulating with it. We believe that there will be a continuing demand for natural cosmetic ingredients, especially for use in personal care products.



In addition to the Lubrajel Natural and Lubrajel Marine we are also continuing our efforts to expand our product portfolio with other new and innovative products. The following is an update on some of those products:

- **LUBRAJEL OIL NATURAL:** This will be the third product in the “natural” line of Lubrajel products. It is being developed to provide lubricating properties and viscosity similar to our very popular Lubrajel Oil, but uses only ingredients that are acceptable for use in cosmetic products making “natural” or “organic” claims. While we are still fine-tuning the formulation, we anticipate that this product will also receive the appropriate Attestation from Ecocert that it complies with the COSMOS standards for use in natural or organic cosmetic products. If we receive positive feedback from our marketing partners we hope to begin marketing this product in the third quarter of 2018.
- **LUBRAJEL TERRA:** This product is based on polysaccharides derived from plant-based materials and, like the other products in the “natural” line, uses only ingredients deemed “natural”. This product is still in the developmental stage, but we hope to have a final formulation by late 2018.
- **AMLA COMPLEX:** Derived from an extract of the Amla fruit (Indian Gooseberry), which is believed to promote certain health benefits, such as healthier skin, hair and nails, the formulation for this product has been finalized and is currently being tested for efficacy. It, too, has received an Attestation from COSMOS that it complies with the COSMOS standard for use in natural and organic cosmetic products. The Company is working closely with its marketing partners to determine the market potential for this product.
- **LUBRAJEL OIL PF:** Similar to our original Lubrajel Oil, this preservative-free version was developed to enable formulators to use their own preservative systems without having to take into account other preservatives. The initial formulation for this product has been completed, and we hope to start sampling the product to our marketing partners soon.

Based on the significant increase in sales and earnings in 2017 the Board of Directors, at its meeting in November, determined that the strong financial results for the year more than justified a continuation of the year-end dividend that we have paid continuously for the past 22 years, and for that reason declared a regular end-of-year dividend of \$0.50 per share. This was paid on December 18, 2017 to all stockholders of record as of December 11, 2017. In addition, based on the large amount of cash the company had on hand, the Board decided that it would be appropriate to pay an additional special dividend of \$0.50 per share, which was paid at the same time as the regular dividend. In making this decision the Board determined that even after the payment of both dividends we would still have more than adequate reserves to cover any anticipated (and unanticipated) capital requirements. This brings the total amount of dividends paid in 2017 to \$1.42 per share. We are pleased to once again be in a position to share our success with our stockholders, and believe that it is in the best interest of the company and its stockholders to continue to pay these dividends when it is appropriate and prudent to do so.

With several new products being sampled to potential customers, we believe that this will be the year that we begin to see sales growth in our natural ingredients line, especially the Lubrajel Marine. Sales for January and February were strong, and we are hopeful that the sales increase that we experienced in 2017 will continue, especially if we are successful in expanding the markets for both our personal care products and our pharmaceutical products, particularly Renacidin. We are excited to see what 2018 will bring, and are confident that it will be another profitable year for us.

UNITED-GUARDIAN, INC.

Ken Globus
President