



2018 ANNUAL REPORT

to the stockholders of
UNITED-GUARDIAN, INC.

April 13, 2019

Dear Stockholder,

This past year was a very positive one, with both sales and income increasing over 2017. Gross sales for the year rose by 8% from \$13,434,460 to \$14,458,055, primarily due to a significant increase in sales of our cosmetic ingredients. Net income showed even larger growth, increasing by 13% from \$3,844,290 (\$0.84 per share) in 2017 to \$4,352,331 (\$0.95 per share) in 2018.

There were two main areas of revenue growth in 2018, the most significant being an increase in sales of our cosmetic ingredients. This increase was attributable primarily to an increase in purchases by Ashland Specialty Ingredients, our largest marketing partner, which continued to grow our sales in China despite the ongoing trade dispute between the U.S. and China. When tariffs were imposed last year by the Trump administration our products were initially included on one of China's retaliatory tariff lists, which would have made an already competitive market in China that much more difficult for us. However, just before those tariffs were to go into effect our product category was removed from the list, and as of now our products are not subject to those additional tariffs. The market for our products in China has grown steadily over the past few years, and currently accounts for about half of Ashland's purchases from us. It is a very important market for us, and one we hope that we can continue to grow as long as the trade situation with China is resolved and no additional tariffs are imposed.

While it was very rewarding to be able to increase our sales in Asia despite the uncertain tariff situation, we continue to deal with a very competitive market for our cosmetic ingredients in both Asia and Europe, with strong competition from lower-priced Asian competitors. We regularly evaluate our marketing efforts in those geographic areas and, when necessary, adjust prices to both retain current business and to bring in new customers who might be using one of the competitive products. The strong U.S. dollar has made our products more expensive for customers in these areas, and that will continue to be an additional challenge for us. While there are times when we are able to match some of our competitor's lower prices, there are also times when doing so wouldn't make sense for us based on how low the profit margin would be. Despite the disparity between our price and the prices of some of our competitors we still believe that we have some advantages that make our products more attractive than some of those lower-cost products, including a more extensive product line that gives customers many more choices than some of our competitors, and a long history of reliability and expertise in providing high quality cosmetic ingredients. We continue to believe that many producers of cosmetic products understand the value of that, and are willing to pay a little more for our product. We will continue to work closely with our marketing partners to ensure that we remain as competitive as possible.

The other area of revenue growth was our pharmaceutical product sales, which grew by 13% last year, with our Renacidin® Irrigation accounting for most of the increase. Those of you who have been stockholders of ours for a while know that in April 2016 we began selling our new, convenient 30mL single-dose form of that product, which was developed to dispense the product directly into a patient's indwelling catheter, thereby eliminating the need to use a separate syringe. In the second half of 2018 we launched a new web site dedicated to Renacidin (www.renacidin.com) to increase both patient and physician awareness of the product. Launching the web site was just the first step in this new marketing campaign, and was followed by efforts on the part of our internet marketing consultants to ensure that information about our product received priority positioning when patients and others searched for medical terms relevant to our product, such as "catheter care". The next step was to develop "pop-up" ads that would appear when certain search terms were used. Those ads have already started running, and over the next few months we expect to see an increase in the frequency in which those ads will appear.

Unlike retail or direct-to-consumer sales, our pharmaceutical business is not one where we would expect to see immediate results from marketing efforts like this, since a patient who sees the ad first has to get his or her doctor to prescribe it, then the pharmacy has to order it from one of the drug wholesalers, and only when that drug wholesaler increases its purchases from us would we begin to see an increase in sales. Our expectation is that by mid-2019 we will have enough information to be able to judge how effective this internet marketing effort has been, and at that time we will decide whether the effort should be continued as is, modified, or discontinued. We believe there are still significant numbers of patients and physicians who are not aware of our product, and we hope to change that with this new internet marketing campaign.



While we continue our efforts to expand the sales of our current product line we are also developing new products that we hope will generate additional revenue in future years. Our focus over the past few years has been on expanding our line of “natural” products, and we believe that the natural cosmetic market will continue to be a growing market for us. The first product that we developed for this market, our “Lubrajel Natural”, has been available for a few years. Sales of that product are still small, but we have tried to take what we learned from the development of that product and use it to bring out additional products that we hope will have greater success. As a result, working jointly with Ashland we developed “Lubrajel Marine”, which is a Lubrajel formulation that was developed using ingredients sourced from marine vegetation. This product was received very well by potential customers, and we are gradually seeing an increase in sales. Like the original Lubrajel Natural, as well as the other “natural” products that we are developing, the Lubrajel Marine has received COSMOS (Cosmetic Organic Standard) certification, which confirms that it can be used by formulators to develop “natural” or “organic” products.

In addition to the Lubrajel Natural and Lubrajel Marine we are working on a number of other products for the cosmetic ingredient market, focusing primarily on the “natural” market but not restricting it to that. These products are in different stages of development, and there is no guarantee that our development efforts will be successful. With that in mind, here are some of the other products on which we are currently working:

- **LUBRAJEL OIL NATURAL:** This would be the third product in the “natural” line of Lubrajel products. It is being developed to provide a similar feel, viscosity, and both lubricating and moisturizing properties to our very popular Lubrajel Oil, but uses only ingredients that are acceptable for use in “natural” or “organic” cosmetic products. There are two formulations of this product that are currently being evaluated by Ashland and undergoing hydration testing. Once we determine the better of the two formulations we will initiate the marketing of this product.
- **LUBRAJEL OIL PF:** Similar to our original Lubrajel Oil, this “PF” (preservative-free) version was developed to enable formulators to choose their own preservative systems. While slightly different from our current Lubrajel Oil, it offers similar lubricity. As with the Lubrajel Oil Natural, we are awaiting hydration testing by Ashland to determine the next steps in the product’s development.
- **LUBRAJEL TERRA:** This product is based on polysaccharides derived from soil-based plant materials and, like the other products in the “natural” line, uses only ingredients deemed “natural”. Ashland has been given a preliminary formulation for this product for testing, and is very pleased with the feel it provides.
- **LUBRAJEL HONEY:** This product is of particular interest to our marketing partner handling the Chinese market. Honey is believed to provide many skin-enhancing and health benefits, and we believe that the combination of honey and Lubrajel will result in a product that could be very attractive to formulators in the skincare market in China. This product is still in the early stages of development.

Some other products that are in very early stages of development and are not yet ready to be evaluated by our marketing partners are: **Silk Peptide**, which is being developed to provide a silky feel to skincare products while still providing hydration; **Jjoba Ester**, which provides a silicone-like feel in a water-soluble gel; **Oil/Wax Hydration**, which is an oil-phase texture ingredient that will also provide hydration; and **Moisture-Lock Lubrajel**, which would be a Lubrajel formulation that provides 24-hours of skin hydration.

Based on the strong year we had in 2018, and taking into account any foreseeable need for capital, the Board of Directors, at its meeting in November, declared a year-end dividend of \$0.55 per share, bringing the total dividends paid in 2018 to \$1.05. This is the 23rd consecutive year that we have paid a dividend. Once again we are very pleased to be in a position to share 2018’s positive results with our stockholders, and continue to believe that doing so is in the best interests of both the company and its stockholders.

We have had a good start to the new year, with strong first quarter sales, and are excited about the many new products currently under development. We are optimistic that with the continued assistance of our marketing partners we will be able to continue to increase sales, and are looking forward to another profitable year in 2019.

UNITED-GUARDIAN, INC.

Ken Globus
President