



UNITED-GUARDIAN, INC.

Corporate Divisions
GUARDIAN LABORATORIES

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Third Quarter 2019 Report to Stockholders

November 22, 2019

Dear Stockholder:

I am pleased to report that our third quarter was another profitable one, with net income of \$1,069,871 (\$0.23 per share) on sales of \$3,317,370. As a result of market factors that I will discuss in more detail below, this year's third quarter was not quite as strong as last year's third quarter, when we had net income of \$1,316,524 (\$0.29 per share) on sales of \$3,344,374. However, considering the overall slowdown in the global economy, we believe that it was still a very successful quarter. For the nine-month period ended September 30, 2019, net income was \$3,371,375 (\$0.73 per share) on sales of \$9,777,086, compared with net income of \$3,769,048 (\$0.82 per share) on sales of \$10,666,525 for the first nine months of 2018.

We believe that the slower sales in the third quarter compared with last year's third quarter were primarily the result of a slow global economy combined with the highly competitive nature of the market for our products. Over the past few years, China has become an important market for us, so the slowdown in the Chinese economy, which is partly the result of the tariffs imposed by the Trump administration, has impacted many U.S. companies doing business in China, including ours. We are thankful that our products are still not subject to any additional tariffs, which would have made the situation even more challenging for us. But the Chinese economy in general has certainly been affected by the tariffs, and this has impacted consumer spending in China, which certainly could impact sales of the cosmetic products in which our products are used.

In addition to the slowing economy in China, we also have considerable competition from Asian competitors that are marketing similar products to ours at lower prices. While some of these products are not of the same level of quality as our products, for some cosmetic manufacturers the ability to produce their products at a lower cost is more important than using the highest quality ingredients. Because of this, we are working closely with our marketing partner in China, Ashland Specialty Products, to be as competitive as possible with our pricing in order to not only maintain the business we have in China, but to try to regain some of the business we have lost to these lower-cost competitors. We are also working on the development of lower-cost cosmetic ingredients that would enable us to better compete with these lower-cost competitors. We remain hopeful that these efforts, along with what we hope will be a resolution of the trade issues in the near future, will enable us to increase our sales in China next year.

As I reported in my August stockholders' letter, in July we made a decision to change our marketing partner in Korea to Ashland Specialty Products. We believe that Ashland will be a stronger marketing partner for us in Korea, and is better positioned to regain some of the market share that we have lost in Korea over the past few years. Like China, Korea is an increasingly competitive market for products like ours, but we are

hopeful that the marketing strength and experience of Ashland will put us in a better position to be competitive in that marketplace.

In terms of our pharmaceutical products, I am pleased to report that sales of Renacidin[®] Irrigation, our most important pharmaceutical product, increased by 15% in this year's third quarter compared with the same period last year, and by 16% for the nine-month period ended September 30, 2019 compared with the same period in 2018. We believe that these increases were the result of the internet-based marketing efforts we began last year, and we are continuing to work closely with our web marketing consultant to further increase those sales.

We have also experienced significant growth in sales of our medical (non-pharmaceutical) products this year, which increased by 31% (\$162,733) in the third quarter compared with the third quarter of 2018, and increased by 25% (\$417,085) for the first nine months of 2019 compared with the same period last year. This increase was due to an increase in demand for our medical-grade lubricants.

In regard to our ongoing research and development work, we are continuing to work on a number of new products, with a focus not only on our continuing development of new "natural" products, but also, as I mentioned earlier, on some new water-based gels similar to our Lubrajel[®] line of moisturizers and lubricants, but which we can market at a lower price point. We are hopeful that development of a lower-cost product will enable us to increase sales of our cosmetic ingredients in places like India, which has a huge consumer market but where our current cosmetic ingredients are too expensive to use in many of the products being developed for that market. We are working closely with Ashland to determine what characteristics are most desirable for this new product, and to make sure that we will be able to differentiate this new lower-priced product from our higher-end Lubrajel products.

One of the products that we have been working on for a while, and on which development work has now been completed, is our new preservative-free form of Lubrajel Oil, our most popular Lubrajel product. We expect marketing efforts for this product to begin shortly. We are also working on two new specialty cosmetic ingredients for the China market, which, if we are successful in our development efforts, we hope to begin marketing early in 2020. I will provide more detail on all of our R&D projects in my next Annual Report to Stockholders in April.

As a result of the profitable year we had again this year, the Board of Directors, at its meeting on November 20th, declared a cash dividend of \$0.55 per share, the same amount the company paid in May. The dividend will be paid on December 10th to all stockholders of record as of December 3rd. This brings the total dividends paid this year to \$1.10, which is the most we have paid in one year with the exception of those years in which a special dividend was paid. While the Board is still anticipating that this year's net income will be lower than last year's, with our strong cash position, as well as our belief that we will be able to increase earnings next year, the Board concluded that it would be in the best interests of the company and its stockholders to make this cash distribution at this time.

With strong sales in October we are optimistic that we will have a promising finish to the year, and with a new marketing push in Korea, a continuation of our marketing effort to increase Renacidin sales, and a number of new products under development, we are hopeful that 2020 will be another profitable year for us as well.

Sincerely,

UNITED-GUARDIAN, INC.



Ken Globus
President

RESULTS FOR THE THIRD QUARTER AND NINE MONTHS ENDED SEPTEMBER 30, 2019 and SEPTEMBER 30, 2018

STATEMENTS OF INCOME (UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2019	2018	2019	2018
Net Sales	\$ <u>3,317,370</u>	\$ <u>3,344,374</u>	\$ <u>9,777,086</u>	\$ <u>10,666,525</u>
Costs and expenses:				
Cost of sales	1,386,948	1,197,448	4,142,616	4,101,973
Operating expenses	544,176	519,330	1,593,232	1,577,864
Research and development	<u>104,800</u>	<u>98,301</u>	<u>297,304</u>	<u>291,250</u>
Total costs and expenses	<u>2,035,924</u>	<u>1,815,079</u>	<u>6,033,152</u>	<u>5,971,087</u>
Income from operations	<u>1,281,446</u>	<u>1,529,295</u>	<u>3,743,934</u>	<u>4,695,438</u>
Other Income (expense):				
Investment income	47,320	38,048	141,428	142,607
Net gain (loss) on marketable securities	25,499	99,145	369,542	(54,261)
Loss on trade-in of equipment	<u>---</u>	<u>---</u>	<u>---</u>	<u>(12,837)</u>
Total other income	<u>72,819</u>	<u>137,193</u>	<u>510,970</u>	<u>75,509</u>
Income before provision for income taxes	1,354,265	1,666,488	4,254,904	4,770,947
Provision for income taxes	<u>284,394</u>	<u>349,964</u>	<u>883,529</u>	<u>1,001,899</u>
Net Income	\$ <u>1,069,871</u>	\$ <u>1,316,524</u>	\$ <u>3,371,375</u>	\$ <u>3,769,048</u>
Earnings per common share (Basic and Diluted)	\$ <u>0.23</u>	\$ <u>0.29</u>	\$ <u>0.73</u>	\$ <u>0.82</u>
Weighted average shares – basic and diluted	4,594,319	4,594,319	4,594,319	4,594,319

BALANCE SHEETS*
(condensed)

	SEPTEMBER 30, <u>2019</u> (UNAUDITED)	DECEMBER 31, <u>2018</u> (AUDITED)
<u>ASSETS:</u>		
Current assets:	\$ 12,701,057	\$ 11,687,100
Net property, plant and equipment:	814,079	827,925
Other assets (net):	<u>18,530</u>	<u>29,647</u>
TOTAL ASSETS	\$ <u>13,533,666</u>	\$ <u>12,544,672</u>
<u>LIABILITIES AND STOCKHOLDERS' EQUITY:</u>	SEPTEMBER 30, <u>2019</u> (UNAUDITED)	DECEMBER 31, <u>2018</u> (AUDITED)
Current liabilities:	\$ 1,529,493	\$ 1,366,151
Deferred income taxes (net):	234,736	253,583
Stockholders' equity:	<u>11,769,437</u>	<u>10,924,938</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ <u>13,533,666</u>	\$ <u>12,544,672</u>

* Detailed financial information can be found in the company's Form 10-Q for the third quarter of 2019, which can be found on the company's web site at www.u-g.com.