



2019 ANNUAL REPORT

to the stockholders of

UNITED-GUARDIAN, INC.

April 15, 2020

Dear Stockholder,

With the coronavirus occupying our daily thoughts and affecting virtually every business, it has been a challenging time for all of us. As a manufacturer of pharmaceuticals and medical products, we are an “Essential Business” under the guidelines promulgated by the New York State Governor’s office, and for that reason we have been able to remain open and continue our manufacturing and shipping operations, even if it is under difficult conditions. While we were not obligated to do so, we voluntarily reduced our daily workforce by 50% to reduce our workplace density. In order to partially make up for the lost working time and maintain as much production as possible, we are now working 7 days a week, with most employees working a nine hour shift every other day. We have also implemented strict social distancing to maintain as much separation between our employees as possible. Like every other business that is continuing to operate, we are monitoring our workplace very carefully, requiring employees to disinfect both themselves and their working areas, as often as possible. Most of our employees have been with us for many years, and we are doing everything we can to make sure that all of us get through this difficult time safely.

In regard to our financial results for 2019, despite the slowdown in the global economy last year and, in particular, the trade issues between the U.S. and China, we still had another profitable year, with increases in both sales and earnings. Sales for the year increased slightly from \$13,445,565 to \$13,599,084, and net income increased from \$4,352,331 (\$0.95 per share) to \$4,761,711 (\$1.04 per share), an increase in earnings of 9.4%.

As was the case in 2018, sales of our cosmetic ingredients in China, as well as in Korea, were impacted by the slowing global economy as well as increased competition from lower-priced Asian competitors. With strong support from Ashland Specialty Ingredients, our marketing partner in China, we have been doing everything we can to aggressively compete with these lower-cost Asian competitors, but in certain cases the pricing is just too low for us to be competitive. However, we expect Ashland to continue its strong marketing efforts in China, and are hopeful that with the waning of the coronavirus epidemic in China, production of cosmetic products there will begin to increase, and we will start to see a gradual increase in orders for our products.

In regard to Korea, sales had dropped dramatically over the past couple of years, and while much of that may have been due to the increased competition, we also believe that our Korean marketing partner was not marketing our products as aggressively as we needed. For that reason, we appointed Ashland as our new marketing partner for Korea, effective as of the end of last year. Ashland is now actively marketing our products there, and we are optimistic that we will be able to recover at least some of the business we lost, in addition to securing new business.

We were very pleased to see a significant increase in the sales of our medical lubricants, which rose by 33% last year, and have become an increasingly important revenue source for us. Not only did sales increase to some of our existing customers, but we also secured two new customers. This has been a growing market for us, and we are hopeful that sales of our medical lubricants will continue to increase.

In addition to the increase in the sales of our medical products we also experienced a 19% increase in sales of Renacidin® Irrigation, our most important pharmaceutical product, the sales of which have been increasing since we began our internet marketing campaign. We believe that Renacidin sales, as well as sales of Clorpactin®, our chlorine-based antimicrobial pharmaceutical product, will remain strong this year.

We are continuing to work closely with all our marketing partners to develop new and innovative ingredients for the cosmetic market. In particular, we are continuing our efforts to expand our line of “natural” cosmetic ingredients, an area in which we expect to see increased demand for new products. We have a number of such products in our R&D pipeline, and we expect to have several of these products in the hands of our marketing partners this year.

Here are just a few of the products on which our R&D department is currently working:

- **Lubrajel Marine:** This is a version of Lubrajel that was formulated using naturally-derived polysaccharides, with some of the ingredients sourced from marine vegetation. The original formulation of this product is already on the market, and while we haven’t seen any large sales so far, we are beginning to see some increases in sales.



In order to expand the potential uses for this this product we are now working with Ashland to incorporate one or more of their low-cost active ingredients into the product. We expect to find out shortly whether this project looks feasible.

- **Lubrajel Oil Natural:** This product was developed as a “natural” version of our very popular Lubrajel Oil. It uses vegetable feedstock, and, like the Lubrajel Marine, is based on polysaccharide chemistry. We have a final formula, and in the coming months we will be conducting hydration testing, with a goal of having this product on the market in the Fall. Like our other “natural” products, this product has been certified by Ecocert to comply with the COSMOS standards for use in natural and organic cosmetic products.
- **Lubrajel Oil PF:** This is a preservative-free version of Lubrajel Oil that was developed as a result of not only the high demand for our regular Lubrajel Oil, but also strong demand for our other preservative-free product, the original Lubrajel PF. By being preservative-free, formulators are able to use their own preservative systems without having to account for preservatives already incorporated into the product. We have completed the testing of this product, and plan to launch it by the end of the second quarter.
- **Low Cost Lubrajel:** Based on feedback from our marketing partners, we believe that there could be significant market potential for a version of Lubrajel that can be produced and marketed at a lower cost than the current line of Lubrajel products. There are certain global markets that are not suitable for the current price points for Lubrajel, and we believe that the development of a lower-priced Lubrajel could open these new markets for us. Prototypes are being developed and will undergo a series of tests to determine which formulation would be the most competitive but would also satisfy the requirement that the product be different enough from our other Lubrajel products that it wouldn’t cannibalize the sales of those products. Once a prototype has been selected, samples will be sent to our marketing partners.
- **Lubrajel Terra:** This addition to our “natural” product line uses plant-based materials. As is the case with our other “natural” products, we expect to receive Ecocert certification so that the product can be used to manufacture “natural” products. There had been delays in getting some of the raw materials needed to make this product, but the supply issue has been resolved, and we expect to ship samples to our marketing partners in the next few weeks.
- **Oil/Wax Hydration:** The concept for this product is an anhydrous textured gel that can be added to the oil phase of a cosmetic formula. We believe that there is a need in the marketplace that has not yet been filled for a product like this. Like many of our other “natural” products, this product has a high natural origin content based on ISO 16128, and, like our other natural products, is intended to be certified by Ecocert as a “natural” ingredient. Prototypes have been created and will undergo further testing and evaluation.

As a result of the profitable year we had last year, the Board of Directors, at each of its meetings in May and November of last year, declared cash dividends of \$0.55 per share. The total dividends for the year of \$1.10 is the most we have paid in one year, other than in those years in which a special dividend was paid. In both cases the Board concluded that declaring these dividends would not adversely affect our ability to fund any anticipated capital requirements, and would be in the best interests of both the company and its shareholders. Based upon the stock price at the time of November dividend, the trailing twelve-month dividend yield on our stock was about 6%. Based on the current market price the yield would be about 8%. This will be the 24th consecutive year that we have paid a dividend, and we are very pleased to once again be in a position to share our profitability with our stockholders.

With the disastrous impact the coronavirus is having on the world economy right now we are very grateful that we have been able to continue working and producing products. We don’t know how long that will last, but as long as our employees remain healthy and the State of New York allows us to continue our operations, we will do everything we can to continue to manufacture and ship orders. Like everyone else, we are hopeful that in the next few months things will begin to get better. Until then, we will continue to work on our current R&D projects, and will be working closely with our marketing partners to maintain, and hopefully increase, the sales of our cosmetic ingredients. We will also continue our marketing efforts for Renacidin, the sales of which we hope will continue to increase. Despite the global economic impact of the coronavirus, we are optimistic that within the next few months both the global and U.S. economies will gradually improve, and that despite the challenges that all of us are facing right now, that 2020 will be another profitable year.

UNITED-GUARDIAN, INC.

Ken Globus
President