



UNITED-GUARDIAN, INC.

Corporate Divisions
GUARDIAN LABORATORIES

Corporate Headquarters
230 MARCUS BLVD.
HAUPPAUGE, NY 11788

Mailing Address
P.O. BOX 18050
HAUPPAUGE, NY 11788

TEL: (631) 273-0900
FAX: (631) 273-0858
E-MAIL: pgc@u-g.com

First Quarter 2021 Report to Stockholders

June 8, 2021

Dear Stockholder:

With the coronavirus pandemic abating, and businesses reopening across the globe, we finally began to see a gradual increase in orders in the first quarter of this year. The result was the strongest quarter we have had since the fourth quarter of 2019. Net sales for the quarter were \$3,430,868, compared with \$3,322,914 for the first quarter of 2020. Even more significant was the increase in net income, which rose from \$790,307 (\$0.17 per share) in the first quarter of 2020 to \$1,181,202 (\$0.26) this year, an increase of 49%.

When evaluating the results of the first quarter there are a number of things that should be kept in mind. While overall revenue was up slightly, sales of our cosmetic ingredients were down somewhat compared with last year's first quarter. The primary reason for this was the unusually high volumes of our products that had been purchased during the first few months of 2020 due to fears that the pandemic could impact our ability to continue to provide our customers with product. At that time, the pandemic was having a major impact in New York, and we didn't know whether, or for how long, we would be able to maintain production. As a result, our largest marketing partner purchased higher-than-normal volumes of product at the same time as global cosmetic manufacturers were scaling back their production. This resulted in much lower sales of our cosmetic ingredients for the remainder of 2020 due to this excess inventory having to be worked off. What made this even more difficult was the fact that at the same time the global economy was slowing.

The negative impact of the pandemic on sales of our cosmetic ingredients was, however, partially offset by an increase in sales of some of our other products, such as our pharmaceutical products, which increased by 10% (despite the discontinuation of our Medicaid sales), and our medical products, which were up by 14%.

There were two additional factors that contributed to the strong quarter, especially in regard to net income. One was the significant increase in value of the stock market in the first quarter of 2021 versus the substantial decrease in the stock market that took place in first quarter of 2020 as the pandemic was taking hold. Current accounting rules require companies to include in net income any changes in the market value of the company's investments, regardless of whether those investments were actually sold. The strong stock market in the first quarter of this year reduced the unrealized losses that had negatively impacted our net income in the first quarter of 2020, when the stock market had declined substantially as the pandemic became progressively worse. The differential between last year's net unrealized loss and this year's reduced loss added five cents to this year's first quarter earnings per share.

Also contributing to our bottom line was the federal Employee Retention Credit that we received for having maintained our payroll throughout the pandemic. This one-time event (for us) added almost three cents to our per share earnings. The combination of these two factors resulted in an almost eight cent per share increase in our earnings in the first quarter of this year compared with last year's first quarter.

As I mentioned in the Annual Report in April, at the end of 2020 we discontinued our participation in the state Medicaid Drug Rebate Programs. Those programs accounted for approximately 7.5% of our Renacidin sales. Due to the fees and rebates that were required in order for us to participate in those programs, it had reached a point where we were losing money on every Medicaid sale. As a result, even though our gross sales of Renacidin will be lower, our net income from Renacidin will actually increase as a result of our discontinuing our participation in Medicaid. Unfortunately, this will result in some patients no longer being able to obtain the product. However, it became clear to us that it no longer made sense for us to continue participating in these programs. Hopefully, some of the patients who were receiving Renacidin through Medicaid will be able to find other programs to provide them with financial assistance, and we are looking into whether there are any options for us to be able to assist patients who cannot afford the product.

As a result of the strong first quarter earnings, and based on our projection that second quarter sales would continue to be strong, the Board of Directors, at its meeting on May 18, 2021, declared a cash dividend of \$0.48 a share, which was paid on June 7th to all stockholders of record on May 31st. This marks the 26th consecutive year that the company has paid a dividend, and we are pleased to once again be able to share our success with our shareholders.

We are continuing to work closely with our marketing partners to not only develop new products for our current markets, but to also to continue to expand the market for our current products. Since I recently provided an update on the status of our current R&D projects in the Annual Report that went out in April, I will defer my update on the status of those projects until the second quarter stockholders' letter. I would just like to point out that we are actively working with our marketing partners to expand the market for our current products, especially in Asia. In particular, we are working closely with Ashland Specialty Ingredients, our largest marketing partner, to provide them with the marketing tools and competitive pricing they need in order to compete with the many lower-priced local competitors in China and Korea. We believe that our reputation for producing products of consistently high quality will help to at least partially offset the price advantage that the local Asian manufacturers have. We are optimistic that the quality of our products, along with our willingness to be as competitive as possible, will help us to maintain, and hopefully increase, our market share in Asia.

Considering the extensive damage that the global pandemic has done to businesses in so many parts of the world, we are very thankful that as a company we were able to make it through the worst of the pandemic with much less severe impact than many other companies. While our sales in 2020 were certainly affected by the pandemic, it could have been much worse for both the company and our employees. While we had to cut back on working hours and production time when the pandemic was at its worst in New York, the dedication of our employees enabled us to maintain the production levels we needed to be able to continue to supply our customers with product.

Based upon the positive first quarter results, as well as the strong second quarter sales to date, we are optimistic that the worst of the pandemic is behind us, at least in the U.S., and that our business will continue to recover as other parts of the world resume their normal activities. I am confident that our second quarter will be another profitable one, and that 2021 will turn out to be a stronger (and much healthier) year for all of us.

Sincerely,

UNITED-GUARDIAN, INC.



Ken Globus
President

STATEMENTS OF INCOME

(UNAUDITED)

THREE MONTHS ENDED
MARCH 31,

	<u>2021</u>	<u>2020</u>
Net Sales	\$ <u>3,430,868</u>	\$ <u>3,322,914</u>
Costs and expenses:		
Cost of sales	1,361,013	1,389,331
Operating expenses	457,127	515,275
Research and development	<u>88,286</u>	<u>107,732</u>
Total costs and expenses	<u>1,906,426</u>	<u>2,012,338</u>
Income from operations	<u>1,524,442</u>	<u>1,310,576</u>
Other (expense) income:		
Investment income	39,760	44,067
Net loss on marketable securities	<u>(72,047)</u>	<u>(356,595)</u>
Total other (expense) income	<u>(32,287)</u>	<u>(312,528)</u>
Income before provision for income taxes	1,492,155	998,048
Provision for income taxes	<u>310,953</u>	<u>207,741</u>
Net income	\$ <u><u>1,181,202</u></u>	\$ <u><u>790,307</u></u>
Earnings per common share (basic and diluted)	\$ <u><u>0.26</u></u>	\$ <u><u>0.17</u></u>
Weighted average shares – basic and diluted	4,594,319	4,594,319

BALANCE SHEETS

<u>ASSETS</u>	MARCH 31, 2021	DECEMBER 31, 2020
	(UNAUDITED)	(AUDITED)
Current assets	\$ 12,653,144	\$ 11,246,611
Property, plant and equipment (net of accumulated depreciation)	<u>666,921</u>	<u>673,665</u>
TOTAL ASSETS	\$ <u>13,320,065</u>	\$ <u>11,920,276</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

	MARCH 31, 2021	DECEMBER 31, 2020
	(UNAUDITED)	(AUDITED)
Current liabilities	1,570,879	1,414,285
Deferred income taxes (net)	<u>213,677</u>	<u>151,684</u>
TOTAL LIABILITIES	<u>1,784,556</u>	<u>1,565,969</u>
Stockholders' equity	<u>11,535,509</u>	<u>10,354,307</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ <u>13,320,065</u>	\$ <u>11,920,276</u>