



UNITED-GUARDIAN, INC.

Corporate Divisions
GUARDIAN LABORATORIES

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Report to Stockholders

2021 Annual Report & 1st Qtr. 2022 Results

May 18, 2022

Dear Stockholder:

This stockholders' report is unusual in that I am combining the Annual Report to Stockholders for FY 2021 with the 1st quarter 2022 stockholders' report. The reason for this is that in January we announced that the company's Board of Directors had launched a formal review process to explore strategic alternatives for company. This could involve strategic partnerships, an outright sale of the company, or other possible transactions. The goal is to ensure that shareholder value is being maximized, and that the company has sufficient financial resources to take advantage of growth opportunities that might be available to us in the future.

While this effort was progressing we felt that it would be best to postpone the annual stockholders' meeting and the issuance of the 2021 Annual Report to Stockholders. Because it is still ongoing, I am not yet at liberty to discuss the current status, but I will do so as soon as the formal review process has been completed and we are in a position to make a public disclosure of the results. However, with the first quarter having come to a close, I felt it was important to update our stockholders on the regular business of the company, and to discuss the FY 2021 results as well as the results of this year's first quarter.

As was the case with so many other companies around the world, our financial results in 2020 were significantly impacted by the global coronavirus pandemic. In 2021 the global financial situation gradually started to improve, and our net sales for the year increased by 27%, from \$10,986,081 in 2020 to \$13,929,629 in 2021. Those sales generated net income of \$4,658,542 (\$1.01 per share), compared with \$3,304,978 (\$0.72 per share) in 2020, an increase of 41%, resulting in one of the company's strongest and most profitable years ever.

In regard to the financial results for the first quarter of 2022, analyzing those results has become more complicated due to a change in the accounting rules governing the treatment of unrealized gains and losses on marketable securities, a change that became effective in January 2018. Companies are now required to include in their earnings any change in the value of their marketable securities, even if those securities were not sold. That meant that there would be a positive impact on a company's earnings when the stock market went up and the value of the company's marketable securities increased, and a negative impact when that value declined.

As a result, while net sales for the first quarter of 2022 rose by 13% compared with last year's first quarter, increasing from \$3,430,868 to \$3,892,358, net income actually decreased by \$269,737 from \$1,181,202 (\$0.26 per share) in 2021 to \$911,465 (\$0.20 per share) this year. While some of this was due to increased costs, particularly raw material and shipping costs, approximately \$.06 per share (pre-tax) of the reduced earnings was due to the decrease in the market value the company's portfolio of marketable securities, which was directly related to the overall decline in the stock market. Our income from operations, however, was almost identical to what it was in the first quarter of 2021.

For this reason, a better indicator of the health of our company and its business is the significant increase in demand that we experienced in FY 2021 for our cosmetic ingredients, with sales of those products increasing by 61% over 2020. Much of the increase was attributable to a resurgence of sales into China, but we also experienced a significant increase in sales in Europe, particularly in the United Kingdom, where sales increased by 42%. The increase in sales of our cosmetic ingredients continued in the first quarter of 2022, increasing by 27% compared with first quarter of 2021.

In regard to our pharmaceutical products, those sales remained strong in 2021, just as they have throughout the pandemic, and increased slightly in the first quarter of 2022. Sales of our medical products were also up in 2021, increasing by 6% over 2020. They decreased slightly in the first quarter of 2022, but this was due primarily to the shortage of truck drivers along with limited availability of shipping vessels, since much of our sales of these products are to customers outside the U.S.

We continue to be optimistic that sales of both our cosmetic ingredients and our medical products will continue to grow in 2022 as we bring some of our new products to market. There are a number of product launches and ongoing R&D projects that we hope will enable us to continue to increase sales of these products. Our current focus continues to be on the development of new and unique “natural” cosmetic ingredients, preservative-free products, and new cosmetic ingredients that have superior moisturizing properties. Our UK marketing partner plans to launch two of our new preservative-free versions of Lubrajel, Lubrajel MS PF and Lubrajel DV PF, by the end of the second quarter. We also recently completed the development of a new extended moisturization product we call “Moisture Lock Lubrajel.” Our goal was for the product to provide at least 24 hours of moisturization, and we were able to meet that goal. We are very excited about this new product, and expect to provide it to our marketing partners soon.

We also have several ongoing R&D projects with both new and existing medical products customers to develop superior water-based medical lubricants. We believe that the medical lubricant market will be an increasingly important one for us in the future, since our expertise in developing new products for this market is well known in the industry. These new medical lubricants, along with the new cosmetic ingredients, are just some of the projects on which we are currently working, and I will provide additional project updates in my next report to stockholders.

As a result of the strong year we had in 2021, in November 2021 the Board of Directors declared a dividend of \$0.65 a share, which was paid on December 7, 2021, to all stockholders of record as of November 29, 2021. That dividend was an increase of 35% over the dividend the company had paid earlier in the year, and an 81% increase over the dividend paid in December 2020. It was also the largest dividend the company had ever paid, and brought the total dividends paid in 2021 to \$1.13, which was a new high for the company for regular dividends paid in any year.

In May 2022 the Board of Directors met to decide whether to pay a dividend for the first half of 2022. They took into account not only the results of the first quarter, but also the projected results for the second quarter. The Board concluded that issuing a dividend was appropriate, but that with so many unknowns right now in regard to the global pandemic it would be prudent to reduce the dividend somewhat, and to reassess the situation later this year when the time comes to decide on the issuance of a dividend for the second half of the year. Accordingly, the Board declared a dividend of \$0.37 a share, which will be paid on June 1st to all stockholders of record on May 23rd. The payment of this dividend will mark the 27th consecutive year the company has paid a dividend.

With the new products we recently introduced for the cosmetic market, as well as those that we are in the process of introducing, we believe that we will be able to continue to expand the sales of our cosmetic ingredients. We are also excited about the new projects for our medical products customers, a market that we continue to believe has significant growth potential for us. We are hopeful that we will be able to continue to grow our business, especially as the global pandemic and the accompanying supply chain issues continue to improve. We remain optimistic about the future of the company, and are looking forward to having another profitable year in 2022.

Sincerely,

UNITED-GUARDIAN, INC.



Ken Globus
President

**FINANCIAL RESULTS FOR THE
YEARS ENDED
DECEMBER 31, 2021 AND DECEMBER 31, 2020**

STATEMENTS OF INCOME

	Years ended December 31,	
	<u>2021</u>	<u>2020</u>
Net sales	\$ <u>13,929,629</u>	\$ <u>10,986,081</u>
Costs and expenses:		
Cost of sales	5,747,931	4,872,335
Operating expenses	2,035,970	2,026,368
Research and development	<u>478,642</u>	<u>451,208</u>
Total costs and expenses	<u>8,262,543</u>	<u>7,349,911</u>
Income from operations	<u>5,667,086</u>	<u>3,636,170</u>
Other income:		
Investment income	233,857	226,245
Net (loss) gain on marketable securities	<u>(23,018)</u>	<u>298,585</u>
Total other income	<u>210,839</u>	<u>524,830</u>
Income before provision for income taxes	5,877,925	4,161,000
Provision for income taxes	<u>1,219,383</u>	<u>856,022</u>
Net income	<u>\$ 4,658,542</u>	<u>\$ 3,304,978</u>
Earnings per common share (basic and diluted)	\$ <u>1.01</u>	\$ <u>0.72</u>
Weighted average shares (basic and diluted)	4,594,319	4,594,319

BALANCE SHEET DATA

(condensed)

	December 31,	
	<u>2021</u>	<u>2020</u>
Current assets	\$ 11,583,390	\$ 11,246,611
Property, plant, and equipment (net of depreciation)	<u>658,862</u>	<u>673,665</u>
Total assets	<u>12,242,252</u>	<u>11,920,276</u>
Current liabilities	2,337,761	1,414,285
Deferred income taxes (net)	<u>83,222</u>	<u>151,684</u>
Total Liabilities	<u>2,420,983</u>	<u>1,565,969</u>
Stockholders' equity	<u>9,821,269</u>	<u>10,354,307</u>
Total liabilities and stockholders' equity	<u>\$ 12,242,252</u>	<u>\$ 11,920,276</u>

**FINANCIAL RESULTS FOR THE
QUARTERS ENDED
MARCH 31, 2022 and MARCH 31, 2021**

STATEMENTS OF INCOME
(UNAUDITED)

	THREE MONTHS ENDED	
	MARCH 31,	
	<u>2022</u>	<u>2021</u>
Net Sales	\$ <u>3,892,358</u>	\$ <u>3,430,868</u>
Costs and expenses:		
Cost of sales	1,710,117	1,361,013
Operating expenses	546,749	457,127
Research and development	<u>131,666</u>	<u>88,286</u>
Total costs and expenses	<u>2,388,532</u>	<u>1,906,426</u>
Income from operations	<u>1,503,826</u>	<u>1,524,442</u>
Other (expense) income:		
Investment income	40,550	39,760
Net loss on marketable securities	<u>(393,660)</u>	<u>(72,047)</u>
Total other (expense) income	<u>(353,110)</u>	<u>(32,287)</u>
Income before provision for income taxes	1,150,716	1,492,155
Provision for income taxes	<u>239,251</u>	<u>310,953</u>
Net income	\$ <u><u>911,465</u></u>	\$ <u><u>1,181,202</u></u>
Earnings per common share (basic and diluted)	\$ <u><u>0.20</u></u>	\$ <u><u>0.26</u></u>
Weighted average shares – basic and diluted	4,594,319	4,594,319

BALANCE SHEET DATA
(condensed)

	March 31,	
	<u>2022</u>	<u>2021</u>
Current assets	\$ 12,311,641	\$ 11,583,390
Property, plant, and equipment (net of depreciation)	<u>629,446</u>	<u>658,862</u>
Total assets	12,941,087	12,242,252
Current liabilities	2,010,476	2,337,761
Deferred income taxes (net)	<u>197,877</u>	<u>83,222</u>
Total Liabilities	2,208,353	2,420,983
Stockholders' equity	<u>10,732,734</u>	<u>9,821,269</u>
Total liabilities and stockholders' equity	\$ <u><u>12,941,087</u></u>	\$ <u><u>12,242,252</u></u>