

Second Quarter 2023 Report to Stockholders

August 29, 2023

Dear Stockholder:

As this is my first stockholders' letter, I would like to begin the report on a personal note. As my third month as President comes to a close, I am reminded of where I began my journey with United-Guardian. I started twenty years ago as a chemist in our Quality Control lab and I have since held positions in Quality Assurance, Research and Development, and as a Company Vice President. United-Guardian has always felt like a home to me, one where I have been given the opportunity to expand my knowledge base, create new products, and learn the intricacies of a manufacturing facility. Over the years I have had the privilege of working with customers, patients, healthcare professionals, distributors, marketing partners and coworkers. I am honored to take United-Guardian into the future and excited for what lies ahead.

Net sales for the second quarter of 2023 decreased by \$975,878 (27%) when compared with the same period in 2022. Net sales for the first half of 2023 decreased by \$2,297,912 (31%) as compared with the corresponding period in 2022. For the second quarter of 2023, the Company's sales of cosmetic ingredients decreased by \$621,076 (45%) when compared with the second quarter of 2022. The decrease in the second quarter sales was due primarily to a net decrease of \$402,586 (43%) in sales of the Company's cosmetic ingredients to Ashland Specialty Ingredients ("ASI"). For the first half of 2023 the Company's sales of cosmetic ingredients decreased by \$1,937,090 (56%) when compared with the corresponding period in 2022. This decrease was due primarily to a net decrease in sales to ASI of \$1,564,484 (59%).

There were a number of factors that impacted our earnings for the quarter and for the first six months of the year, the most significant of which was the aforementioned decrease in sales of our cosmetic ingredients to ASI. ASI is the Company's largest marketing partner for our cosmetic ingredients, and it experienced a decreased demand for the Company's Lubrajel[®] products in China due to slow post-COVID economic growth and increased competition, especially from Asian producers. Other factors were customers working off excess inventory and changing ordering patterns to just-in-time, and the continuing impact of supply chain instability. The Company has experienced longer lead times and higher prices for many of its raw materials, and those higher prices impacted our gross profit margins in the first half of 2023. Our cost of sales in both periods was also negatively impacted by both an increase in our per unit overhead allocation, as well as a change in the product sales mix in 2023 compared with 2022. The Company's pharmaceutical products represented a larger portion of the Company's sales for both the three-month and six-month periods, and those products have a lower gross margin than the Company's cosmetic products and medical lubricants.

On a positive note, we were pleased that the sales of our principal pharmaceutical product, Renacidin[®], increased by 7% for the six-month period ended June 30, 2023. We are actively working on growth strategies for the expansion of Renacidin in both domestic and foreign markets. While these initiatives are in their infancy, we are hopeful that they will enable us to increase our sales and reach more patients who could benefit from this extraordinary product. In addition, we have several medical lubricant projects that are being developed for our core customer base. We believe that the growth potential for our products in the medical lubricant market has not yet been fully explored. We are currently gathering data on this market and developing a deeper understanding of how our products can serve a larger customer base.

We have several cosmetic ingredient products that we are developing. We continue to believe that our best path forward is in the development of natural products that come from sustainable sources, use green chemistry, and do not negatively impact the environment. Many of our cosmetic ingredients are used in skin care formulations. Skin care products have seen increased demand since COVID, with many customers taking an active approach to their health and well-being. We will continue to develop products that fit the growing needs of the skin care market.

Our research department has identified a need for natural hair care ingredients and is actively working on new formulations. The team is developing test methods to provide claim substantiation for our new prototypes and testing our current line of natural products for additional benefits. We believe there are hair care opportunities that have yet to be explored. We will be working closely with our distributors to ensure we can be competitive and position our products for success.

I am pleased to announce that our sexual wellness line of products is ready for marketing, and we just signed a new marketing agreement with a global marketing company that will provide this product line with visibility and promotion. The sexual wellness market is certainly on the rise, and we have already seen interest from customers. We are excited to move forward with this new line of products and are optimistic that this interest will translate into new opportunities for growth.

I am thrilled with all the new growth initiatives we have planned, and I look forward to working with our staff and partners to ensure we reach our goals. As I begin what I hope will be another twenty years, I look forward to sharing the journey with all of you as we continue to expand and grow into the future. I am grateful for the support so many of you have already expressed and appreciate your trust in me and the Company.

Sincerely,

UNITED-GUARDIAN, INC.

A handwritten signature in black ink, appearing to read "Donna Vigilante". The signature is fluid and cursive, with a large initial "D" and "V".

Donna Vigilante
President

**FINANCIAL RESULTS FOR THE
THREE AND SIX MONTHS ENDED
JUNE 30, 2023 AND JUNE 30, 2022**

STATEMENTS OF INCOME
(unaudited)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
Net sales	\$ <u>2,650,299</u>	\$ <u>3,626,177</u>	\$ <u>5,220,623</u>	\$ <u>7,518,535</u>
Costs and expenses:				
Cost of sales	1,429,407	1,693,753	2,523,002	3,403,870
Operating expenses	574,093	620,229	1,092,039	1,166,978
Research and development expense	<u>128,729</u>	<u>112,266</u>	<u>255,688</u>	<u>243,932</u>
Total costs and expenses	<u>2,132,229</u>	<u>2,426,248</u>	<u>3,870,729</u>	<u>4,814,780</u>
Income from operations	<u>518,070</u>	<u>1,199,929</u>	<u>1,349,894</u>	<u>2,703,755</u>
Other income (expense):				
Investment income	54,950	58,860	102,582	99,410
Net gain (loss) on marketable securities	<u>7,479</u>	<u>(460,278)</u>	<u>80,180</u>	<u>(853,938)</u>
Total other income (expense)	<u>62,429</u>	<u>(401,418)</u>	<u>182,762</u>	<u>(754,528)</u>
Income before provision for income taxes	580,499	798,511	1,532,656	1,949,227
Provision for income taxes	<u>119,405</u>	<u>165,187</u>	<u>315,481</u>	<u>404,438</u>
Net income	\$ <u>461,094</u>	\$ <u>633,324</u>	\$ <u>1,217,175</u>	\$ <u>1,544,789</u>
Earnings per common share (basic and diluted)	\$ <u>0.10</u>	\$ <u>0.14</u>	\$ <u>0.26</u>	\$ <u>0.34</u>
Weighted average shares (basic and diluted)	<u>4,594,319</u>	<u>4,594,319</u>	<u>4,594,319</u>	<u>4,594,319</u>

BALANCE SHEETS*

(condensed)

	<u>JUNE 30,</u> <u>2023</u>	<u>DECEMBER 31,</u> <u>2022</u>
	(UNAUDITED)	(AUDITED)
<u>ASSETS:</u>		
Current assets	\$ 11,363,275	\$ 9,970,630
Property, plant, and equipment	7,553,709	7,549,797
Less: Accumulated depreciation	<u>7,039,547</u>	<u>6,990,636</u>
Total property, plant, and equipment, net	514,162	559,161
Deferred income taxes, net	<u>---</u>	<u>110,544</u>
TOTAL ASSETS	\$ <u>11,877,437</u>	\$ <u>10,640,335</u>
 <u>LIABILITIES AND STOCKHOLDERS'</u> <u>EQUITY:</u>		
Current Liabilities	\$ 1,353,709	\$ 1,373,691
Deferred income taxes, net	39,909	---
Stockholders' equity	<u>10,483,819</u>	<u>9,266,644</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ <u>11,877,437</u>	\$ <u>10,640,335</u>

* More detailed financial information can be found in the company's Form 10-Q for the second quarter of 2023, which can be found on the company's web site at www.u-g.com.