

Deswell Announces Second Half 2019 Results

- Company Announces Second Half Cash Dividend of 0.07 Per Share -

FOR IMMEDIATE RELEASE

MACAO (June 11, 2019) - Deswell Industries, Inc. (Nasdaq: DSWL) today announced its unaudited financial results for the second half of the fiscal year ended March 31, 2019.

Net sales for the six months ended March 31, 2019 were \$31.8 million, an increase of 2.8% compared to net sales of \$30.9 million for the six months ended March 31, 2018. Net sales increased by 4.9% to \$15.1 million in the plastic segment and increased by 1.0% to \$16.5 million in the Company's electronic segment.

Total gross margin increased to 17.2% during the six months ended March 31, 2019, as compared to 12.6% in the same period last year. Gross profit margin in the plastic segment increased to 20.9% of net sales for the second half of fiscal 2019, as compared to 14.7% of net sales for the corresponding period of last fiscal year. The increase in gross profit and margin in the plastic segment was mainly due to the decreases in labor cost, as a result of the reduction in headcount, as well as in factory overhead, as a percentage of sales. Gross profit for the electronic segment for the six months ended March 31, 2019 increased from 10.8% in second half of fiscal 2018 to 13.9% in the second half of fiscal 2019. The increase was mainly due to reduction in raw materials costs.

Operating income for the second half of fiscal 2019 was \$0.3 million, as compared to an operating income of \$0.2 million for the same period of fiscal 2018.

The Company reported net income of \$1.5 million for the six months ended March 31, 2019, as compared to net income of \$2.5 million for the six months ended March 31, 2018. Non-operating income for the six months ended March 31, 2019 was \$1.4 million, as compared to non-operating income of \$2.3 million in the year-ago six months. Non-operating income during the six months ended March 31, 2019 was primarily comprised of \$756,000 from rental income, \$454,000 of dividend income from securities investment, \$88,000 from interest income, \$217,000 from a decrease in the fair value of marketable securities, as well as \$350,000 of realized gain from the sale of marketable securities. Deswell reported basic and diluted income per share of \$0.10 for the second half of fiscal 2019 (based on 15,885,000 and 15,969,000 weighted average shares outstanding, respectively), as compared to basic and diluted income share of \$0.16 (based on 15,885,000 and 15,953,000 weighted average shares outstanding), for the six months ended March 31, 2018.

Net sales for the year ended March 31, 2019 were \$66.6 million, an increase of 9.7% compared to net sales of \$60.7 million for fiscal 2018. Operating income for the year ended March 31, 2019 decreased to \$0.5 million, as compared to operating income of \$1.8 million for fiscal 2018. The decrease was mainly attributed to the provision of \$403,000 for doubtful accounts in fiscal 2019, as compared to the reversal of \$654,000 for doubtful account in fiscal 2018. The Company reported net income of \$4.3 million in fiscal 2019, as compared to net income of \$6.2 million for the year ended March 31, 2018. Deswell reported basic and diluted net income per share of \$0.27 for fiscal 2019, (based on 15,885,000 and 16,059,000 weighted average share outstanding, respectively), as compared to basic and diluted income per share of \$0.39 (based on 15,855,000 and 15,985,000 weighted average shares outstanding), for the prior fiscal year.

The Company's financial position remained strong, with \$14.4 million in cash and cash equivalents and working capital totaled \$54.4 million as of March 31, 2019. Furthermore, the Company has no long-term or short-term borrowings as of March 31, 2019.

Mr. Edward So, Chief Executive Officer, commented, "Fiscal 2019 represents our fourth consecutive year of revenue increases, with our sales up 75 percent since we returned to growth in fiscal 2016. Both of our divisions performed well, benefiting from strong relationships with longstanding customers, as well as the addition of multiple new customers. We also saw improved gross margins during the six month period due to reduced labor and raw material costs. Furthermore, we continue to monitor the ongoing US-China trade tension and are prepared to proactively adjust our strategy if necessary to support continued

growth. Our balance sheet remains solid and we look forward to continuing to carefully allocate capital and focus on driving profitability.”

Second Half Dividend

The Company also announces that its board of directors today declared a cash dividend of \$0.07 per share for the second half of the fiscal year ended March 31, 2019. The dividend will be payable on July 12, 2019 to shareholders of record as of June 25, 2019.

Dividends to be declared in the future will depend upon the Company’s future growth and earnings, of which there can be no assurance, and the Company’s cash flow needs for future development.

About Deswell

Deswell manufactures injection-molded plastic parts and components, electronic products and subassemblies, and metallic molds and accessory parts for original equipment manufacturers (“OEMs”) and contract manufacturers at its factories in the People’s Republic of China. The Company produces a wide variety of plastic parts and components used in the manufacture of consumer and industrial products; printed circuit board assemblies using surface mount (“SMT”) and finished products such as telephones, telephone answering machines, sophisticated studio-quality audio equipment and computer peripherals.

To learn more about Deswell Industries, Inc., please visit the Company’s website at www.deswell.com.

Forward-Looking Statements

Statements in this press release that are “forward-looking statements” are based on current expectations and assumptions that are subject to risks and uncertainties. For example, our statements regarding our expected growth in sales from the electronic division in the coming year and our efforts to reduce overhead costs in our plastic division are forward-looking statements. Actual results could differ materially because of the following factors, among others, which may cause revenues and income to fall short of anticipated levels or our overhead expenses to increase: our dependence on a few major customers; vigorous competition forcing product price reductions or discounts; the timing and amount of significant orders from our relatively few significant customers; continuing increases in resin prices that cannot be passed on to customers; unexpected production delays; obsolete inventory or product returns; losses resulting from fraudulent activity of our customers or employees; labor shortages that increase labor and costs; changes in the mix of product products we manufacture and sell; adverse currency fluctuations in the Renminbi and Hong Kong dollar when translated to US dollars; potential new accounting pronouncements; and the effects of travel restrictions and quarantines associated with major health problems, such as the Severe Acute Respiratory Syndrome, on general economic activity.

For further information regarding risks and uncertainties associated with the Company’s business, please refer to the “Risk Factors” section of Company’s Annual Report on Form 20-F, copies of which may be obtained from the Website maintained by the Securities and Exchange Commission at <http://www.sec.gov>.

All information in this release is made as of the date of this press release. Deswell undertakes no duty to update any forward-looking statement to conform the statement to actual results or changes in Deswell’s expectations.

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DESWELL INDUSTRIES, INC.

CONSOLIDATED BALANCE SHEET

(U.S. dollars in thousands)

	March 31, <u>2019</u> (Unaudited)	March 31, <u>2018</u> (Audited)
ASSETS		
Current assets :		
Cash and cash equivalents	\$ 14,371	\$ 15,192
Time deposits maturing over three months	371	2,190
time deposits maturing over twelve months	-	3,129
Marketable securities (note 2)	24,446	17,282
Accounts receivable,net.	15,734	15,912
Inventories (note 3)	13,030	12,933
Prepaid expenses and other current assets	2,006	2,267
Total current assets	<u>69,958</u>	<u>68,905</u>
Property, plant and equipment - net	<u>30,211</u>	<u>31,494</u>
Total assets	<u>\$ 100,169</u>	<u>\$ 100,399</u>
 LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 6,253	\$ 8,596
Accrued payroll and employee benefits	5,676	5,566
Customer deposits	1,298	1,707
Other accrued liabilities	1,662	1,873
Income taxes payable	657	603
Total current liabilities	<u>15,546</u>	<u>18,345</u>
Deferred income tax liabilities	<u>659</u>	<u>775</u>
Total liabilities	<u>16,205</u>	<u>19,120</u>
 Shareholders' equity		
Common shares nil par value - authorized 30,000,000 shares, shares issued and outstanding as of March 31, 2019 and March 31, 2018 - 15,885,239, respectively.	53,063	53,063
Treasury stock at cost; 1,146,571 shares as of March 31, 2019 and 2018	(2,821)	(2,821)
Additional paid-in capital	8,005	8,005
Accumulated other comprehensive income	5,316	5,316
Retained earnings	20,401	17,716
Total shareholders' equity	<u>83,964</u>	<u>81,279</u>
Total liabilities and shareholders' equity	<u>\$ 100,169</u>	<u>\$ 100,399</u>

DESWELL INDUSTRIES, INC.
CONSOLIDATED STATEMENT OF OPERATIONS & COMPREHENSIVE INCOME
(UNAUDITED)
(U.S. dollars in thousands, except per share data)

	Six months ended		Year ended	
	March 31,		March 31,	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Net sales	\$ 31,786	\$ 30,908	\$ 66,581	\$ 60,667
Cost of sales	<u>26,306</u>	<u>27,015</u>	<u>56,311</u>	<u>50,953</u>
Gross profit	5,480	3,893	10,270	9,714
Selling, general and administrative expenses	4,696	4,372	9,459	8,806
Other income (expense), net	<u>(501)</u>	<u>696</u>	<u>(278)</u>	<u>894</u>
Operating income (loss)	283	217	533	1,802
Non-operating income, net (note 3)	<u>1,402</u>	<u>2,265</u>	<u>3,884</u>	<u>4,395</u>
Income before income taxes	1,685	2,482	4,417	6,197
Income taxes	<u>169</u>	<u>(39)</u>	<u>1447</u>	<u>7</u>
Net income attributable to Deswell Industries, Inc.	\$ 1,516	\$ 2,521	\$ 4,273	\$ 6,190
Other comprehensive income	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Comprehensive income (loss) attributable to Deswell Industries, Inc.	<u>\$ 1,516</u>	<u>\$ 2,521</u>	<u>\$ 4,273</u>	<u>\$ 6,190</u>
Net income per share attributable to Deswell Industries, Inc. (note 5)				
Basic:				
Net income per share	<u>\$ 0.10</u>	<u>\$ 0.16</u>	<u>\$ 0.27</u>	<u>\$ 0.39</u>
Weighted average common shares outstanding shares (in thousands)	<u>15,885</u>	<u>15,885</u>	<u>15,885</u>	<u>15,885</u>
Diluted:				
Net income (loss) per share	<u>\$ 0.10</u>	<u>\$ 0.16</u>	<u>\$ 0.27</u>	<u>\$ 0.39</u>
Weighted average number of shares outstanding (in thousands)	<u>15,969</u>	<u>15,953</u>	<u>16,059</u>	<u>15,985</u>

DESWELL INDUSTRIES, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

(U.S. dollars in thousands)

	Year ended Mar 31,	
	<u>2019</u>	<u>2018</u>
Cash flows from operating activities :		
Net income	\$ 4,273	\$ 6,190
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	2,114	2,138
Provision for (reversal of) doubtful accounts, net	403	(674)
Additional charges for obsolescence allowance of inventories, net	256	296
Loss on disposal of property, plant and equipment	22	61
Unrealized holding gain on marketable securities	(891)	(1,401)
Gain on sales of marketable securities	(746)	(609)
Scrip dividend received	(33)	(168)
Deferred income tax	(116)	(114)
Changes in operating assets and liabilities :		
Accounts receivable	(225)	(2,079)
Inventories	(353)	(2,541)
Prepaid expenses and other current assets	261	152
Accounts payable	(2,343)	3,444
Accrued payroll and employee benefits	110	923
Customer deposits	(409)	(445)
Other accrued liabilities	(211)	399
Income taxes payable	54	127
Net cash provided by operating activities	<u>2,166</u>	<u>5,699</u>
Cash flows from investing activities		
Purchase of property, plant and equipment	(878)	(1,707)
Proceeds from sale of property, plant and equipment, net of transaction costs	25	6
Purchase of marketable securities	(12,704)	(5,357)
Proceeds from sales of marketable securities	7,210	6,580
Release of fixed deposits maturing over three months	1,819	3,232
Decrease in (increase in) fixed deposits maturing over twelve months	3,129	(227)
Net cash (used in) provided by investing activities	<u>(1,399)</u>	<u>2,527</u>
Cash flows from financing activities		
Dividends paid	(1,588)	(1,112)
Net cash used in financing activities	<u>(1,588)</u>	<u>(1,112)</u>
Net (decrease) increase in cash and cash equivalents	(821)	7,114
Cash and cash equivalents, beginning of year	15,192	8,078
Cash and cash equivalents, end of year	<u><u>14,371</u></u>	<u><u>15,192</u></u>
Supplementary disclosures of cash flow information :		
Cash paid during the year for :		
Interest	-	-
Income taxes	-	85

