

Deswell Announces First Half 2020 Results

Company Announces First Half Cash Dividend of \$0.08 Per Share

FOR IMMEDIATE RELEASE

MACAO (November 15, 2019) - Deswell Industries, Inc. (Nasdaq: DSWL) today announced its unaudited financial results for the first six months of fiscal 2020, ended September 30, 2019.

Net sales for the six months ended September 30, 2019 were \$37.7 million, an increase of 8.4% compared to net sales of \$34.8 million for the six months ended September 30, 2018. Net sales increased by 7.7% to \$14.7 million in the plastic segment and increased by 8.8% to \$23.0 million in the Company's electronic segment.

Total gross margin increased to 17.4% of net sales during the six months ended September 30, 2019, as compared to 13.8% of net sales in the same period last year. Gross profit margin in the plastic segment increased to 21.0% of net sales for the first half of fiscal 2020, compared to 16.4% 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 decreases in raw materials cost, labor costs and subcontracting charges, offsetting an increase in factory overheads, as a percentage of sales. Gross profit margin in the electronic segment increased to 15.0% of net sales for the first half of fiscal 2020, compared to 12.1% of net sales for the corresponding period of last fiscal year. The increase in gross margin in the electronic segment was mainly attributable to decreases in raw materials and labor costs, as a percentage of net sales. Operating income in the first half of fiscal 2020 was \$1.2 million, compared to operating income of \$0.2 million for the same period of fiscal 2019.

The Company reported net income of \$1.2 million for the six months ended September 30, 2019, compared to net income of \$2.8 million for the six months ended September 30, 2018. This was primarily due to decrease in non-operating income, as a percentage of sales, for the six months ended September 30, 2019. Deswell reported basic and diluted income per share of \$0.08 for the first half of fiscal 2020 (based on 15,912,000 and 15,973,000 weighted average shares outstanding, respectively), compared to basic and diluted income per share of \$0.17 (based on 15,885,000 and 15,975,000 weighted average shares outstanding), for the six months ended September 30, 2018.

The Company's financial position remained strong, with \$13.1million in cash and cash equivalents and working capital totaled \$53.9 million as of September 30, 2019. Furthermore, the Company has no long-term or short-term borrowings as of September 30, 2019.

Mr. Edward So, Chief Executive Officer, commented, "We are pleased with the continued solid organic growth driven by expanding relationships with both existing and new customers. This revenue increase continues to be primarily attributable to increased orders for professional audio equipment and home entertainment products. Operationally, we have strengthened our ability to meet customer needs by enhancing our product engineering resources and capabilities with the expansion of our product development team and the addition of engineers from a variety of disciplines. Furthermore, we have implemented certain automated systems into our manufacturing process, resulting in decreased costs in both overhead and for quality control. Operating income for the first half of 2020 increased significantly given the higher gross margins in both the plastics and electronics sides of our business. Additionally, our balance sheet remains very strong and is a key competitive advantage as we grow the business. Finally, as we mentioned in our 2H2019 press release, we have been evaluating our options to mitigate uncertainties caused by the ongoing trade controversy between the U.S. and China, including the reallocation of a portion of our production to Southeast Asia. To that end, we have submitted an application to incorporate as a foreign invested enterprise ("FIE") in Vietnam, while we plan the relocation of certain products there."

First Half Dividend

The Company also announces that its board of directors today declared a cash dividend of \$0.08 per share for the first half of the fiscal year ended September 30, 2019. The dividend will be payable on December 13, 2019 to shareholders of record as of November 27, 2019.

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
CONSOLIDATED BALANCE SHEET
(U.S. dollars in thousands)

	Sept. 30 <u>2019</u> (Unaudited)	March 31, <u>2019</u> (Audited)
ASSETS		
Current assets :		
Cash and cash equivalents	\$ 13,123	\$ 14,371
Fixed deposits maturing over three months	1,842	371
Time deposits maturing over twelve months - current portion	-	-
Marketable securities	22,857	24,446
Accounts receivable, net	21,568	15,734
Inventories	10,863	13,030
Prepaid expenses and other current assets	2,012	2,006
Total current assets	<u>72,265</u>	<u>69,958</u>
Property, plant and equipment - net	29,428	30,211
Time deposits maturing over twelve months	1,417	-
Total assets	<u><u>\$ 103,110</u></u>	<u><u>\$ 100,169</u></u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 8,723	\$ 6,253
Accrued payroll and employee benefits	6,044	5,676
Customer deposits	1,081	1,298
Other accrued liabilities	1,762	1,662
Income taxes payable	706	657
Total current liabilities	<u>18,316</u>	<u>15,546</u>
Deferred income tax liabilities	631	659
Total liabilities	<u>18,947</u>	<u>16,205</u>
Shareholders' equity		
Common shares nil par value; authorized 30,000,000 shares; 17,031,810 and 17,061,810		
shares issued as of September 30, 2019 and March 31, 2019; 15,915,239 and 15,885,239	53,143	53,063
shares outstanding as of September 30, 2019 and March 31, 2019		
Additional paid-in capital	5,168	5,184
Accumulated other comprehensive income	5,316	5,316
Retained earnings	<u>20,536</u>	<u>20,401</u>
Total shareholders' equity	<u>84,163</u>	<u>83,964</u>
Total liabilities and shareholders' equity	<u><u>\$ 103,110</u></u>	<u><u>\$ 100,169</u></u>

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

	Six months ended	
	September 30,	
	<u>2019</u>	<u>2018</u>
Net sales	\$ 37,713	\$ 34,795
Cost of sales	<u>31,169</u>	<u>30,005</u>
Gross profit	6,544	4,790
Selling, general and administrative expenses	5,208	4,763
Other income (expense), net	<u>(180)</u>	<u>223</u>
Operating income	1, 156	250
Non-operating income, net	<u>219</u>	<u>2,482</u>
Income before income taxes	1,375	2,732
Income taxes	<u>126</u>	<u>(25)</u>
Net income attributable to Deswell Industries, Inc.	\$ 1,249	\$ 2,757
Other comprehensive income	<u>\$ -</u>	<u>\$ -</u>
Comprehensive income attributable to Deswell Industries, Inc.	<u>\$ 1,249</u>	<u>\$ 2,757</u>
Net income per share attributable to Deswell Industries, Inc. (note 5)		
Basic:		
Net income per share	<u>\$ 0.08</u>	<u>\$ 0.17</u>
Weighted average common shares outstanding shares (in thousands)	<u>15,912</u>	<u>15,885</u>
Diluted:		
Net income per share	<u>\$ 0.08</u>	<u>\$ 0.17</u>
Weighted average number of shares outstanding (in thousands)	<u>15,973</u>	<u>15,975</u>

DESWELL INDUSTRIES, INC.
CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)
(U.S. dollars in thousands)

	Six months ended September 30, <u>2019</u>	Six months ended September 30, <u>2018</u>
Cash flows from operating activities :		
Net income	\$ 1,249	\$ 2,757
Adjustments to reconcile net income to net cash provided by operating activities :		
Depreciation and amortization	1,014	1,099
Provision for doubtful accounts	202	58
Allowances for obsolete inventories	53	69
(Gain) Loss on disposal of property, plant and equipment	34	(1)
Unrealized holding (gain) loss on marketable securities	1,252	(1,109)
Realized (gain) on disposal of marketable securities	(29)	(396)
Scrip dividend received	10	-
Deferred tax	(28)	(179)
Changes in operating assets and liabilities :		
Accounts receivable	(6,036)	(3,434)
Inventories	2,114	(106)
Prepaid expenses and other current assets	(6)	316
Accounts payable	2,470	593
Accrued payroll and employee benefits	368	-
Customer deposits	(217)	(337)
Other accrued liabilities	100	42
Income taxes payable	49	23
Net cash (used in) provided by used in operating activities	<u>2,599</u>	<u>(605)</u>
Cash flows from investing activities		
Purchase of property, plant and equipment	(270)	(229)
Proceeds from disposal of property, plant and equipment,	5	13
Purchase of marketable securities	(1,264)	(5,004)
Proceeds from disposal of marketable securities	1,620	4,854
Increase in fixed deposits maturing over three months	(1,471)	1,690
Decrease in fixed deposits maturing over twelve months	(1,417)	206
Net cash (used in) provided by investing activities	<u>(2,797)</u>	<u>1,530</u>
Cash flows from financing activities		
Dividends paid	(1,114)	(635)
Exercise of stock options	64	-
Net cash used in financing activities	<u>(1,050)</u>	<u>(635)</u>
Net increase (decrease) in cash and cash equivalents	(1,248)	290
Cash and cash equivalents, at beginning of period	14,371	15,192
Cash and cash equivalents, at end of period	<u>13,123</u>	<u>15,482</u>
Supplementary disclosures of cash flow information :		
Cash paid during the period for :		
Interest	-	-
Income taxes	57	-

