

Deswell Announces Second Half 2020 Results

- Company Announces Second Half Cash Dividend of 0.09 Per Share -

FOR IMMEDIATE RELEASE

MACAO (June 11, 2020) - Deswell Industries, Inc. (Nasdaq: DSWL) today announced its unaudited financial results for the second half of the fiscal year ended March 31, 2020.

Net sales for the six months ended March 31, 2020 were \$27.7 million, a decrease of 13.0% compared to net sales of \$31.8 million for the six months ended March 31, 2019. Net sales decreased by 29.5% to \$10.7 million in the plastic segment and increased by 2.0% to \$17.0 million in the Company's electronic segment.

Total gross margin increased to 19.2% during the six months ended March 31, 2020, as compared to 17.2% in the same period last year. Gross profit margin in the plastic segment increased to 23.3% of net sales for the second half of fiscal 2020, as compared to 20.9% of net sales for the corresponding period of last fiscal year. The increase in gross profit margin in the plastic segment was mainly due to decrease in raw materials cost, offsetting the increases in labor cost, as well as in factory overhead, as a percentage of sales. Gross profit margin for the electronic segment for the six months ended March 31, 2020 increased from 13.9% in second half of fiscal 2019 to 16.7% in the second half of fiscal 2020. The increase was mainly due to the reduction in labor cost as a result of the implementation of cost control measures.

Operating income for the second half of fiscal 2020 remained approximately the same as the same period of fiscal 2019 at \$0.3 million.

The Company reported net loss of \$2.6 million for the six months ended March 31, 2020, as compared to net income of \$1.5 million for the six months ended March 31, 2019. Non-operating expense for the six months ended March 31, 2020 was \$2.6 million, as compared to non-operating income of \$1.4 million in the year-ago six months. Non-operating expense during the six months ended March 31, 2020 was primarily comprised of \$3,927,000 from a decrease in the fair value of marketable securities, offsetting rental income of \$761,000, dividend income of \$485,000 from securities investment, and interest income of \$126,000. Deswell reported basic and diluted loss per share of \$0.16 for the second half of fiscal 2020 (based on 15,915,000 and 15,966,000 weighted average shares outstanding, respectively), as compared to basic and diluted income share of \$0.10 (based on 15,885,000 and 15,969,000 weighted average shares outstanding), for the six months ended March 31, 2019.

Net sales for the year ended March 31, 2020 were \$65.4 million, a decrease of 1.8% compared to net sales of \$66.6 million for fiscal 2019. Operating income for the year ended March 31, 2020 increased to \$1.4 million, as compared to operating income of \$0.5 million for fiscal 2019. The Company reported net loss of \$1.3 million in fiscal 2020, as compared to net income of \$4.3 million for the year ended March 31, 2019. The decrease in net income was mainly attributed to the non-operating expense of \$2.4 million in fiscal 2020, as compared to the non-operating income of \$3.9 million in fiscal 2019. Deswell reported basic and diluted net loss per share of \$0.08 for fiscal 2020, (based on 15,914,000 and 16,020,000 weighted average share outstanding, respectively), as compared to basic and diluted income per share of \$0.27 (based on 15,855,000 and 16,059,000 weighted average shares outstanding), for the prior fiscal year.

The Company's financial position remained strong, with \$22.5 million in cash and cash equivalents and working capital totaled \$51.1 million as of March 31, 2020. Furthermore, the Company has no long-term or short-term borrowings as of March 31, 2020.

Mr. Edward So, Chief Executive Officer, commented, "We are pleased with our fiscal 2020 results which included a strong increase in operating income despite challenges related to Covid-19 and trade conflicts. Our first priority has been the safety of our employees and to that end we delayed the reopening of our facilities following the Chinese New Year holiday, which resulted in lost production days. Supply chain interruptions also presented some headwinds but we managed through those challenges and have been able to support our customers.

“While we continue to see demand negatively impacted by the international economic environment, we continue to nurture new customer relationships which we are optimistic can develop into larger commitments. One of the many strengths of our company is our strong balance sheet which enables us to weather challenging periods and stay focused on the long term performance of the business. Finally, we brought expenses down in fiscal 2020 and will continue to proactively manage costs to maximize operating profitability for our shareholders”

Second Half Dividend

The Company also announces that its board of directors today declared a cash dividend of \$0.09 per share for the second half of the fiscal year ended March 31, 2020. The dividend will be payable on July 10, 2020 to shareholders of record as of June 25, 2020.

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>2020</u> (Unaudited)	March 31, <u>2019</u> (Audited)
ASSETS		
Current assets :		
Cash and cash equivalents	\$ 22,514	\$ 14,371
Time deposits maturing over three months	783	371
Marketable securities (note 2)	19,441	24,446
Accounts receivable, net	12,301	15,734
Inventories (note 3)	8,578	13,030
Prepaid expenses and other current assets	1,752	2,006
Total current assets	65,369	69,958
Property, plant and equipment - net	28,586	30,211
Time deposits maturing over twelve months	1,424	-
Total assets	\$ 95,379	\$ 100,169
 LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 4,604	\$ 6,253
Accrued payroll and employee benefits	6,077	5,676
Customer deposits	1,172	1,298
Other accrued liabilities	1,718	1,662
Income taxes payable	735	657
Total current liabilities	14,306	15,546
Deferred income tax liabilities	751	659
Total liabilities	15,057	16,205
 Shareholders' equity		
Common shares nil par value - authorized 30,000,000 shares, 17,031,810 and 17,061,810 shares issued as of March 31, 2019 And 2020; 15,885,239 and 15,915,239 shares outstanding as of March 31, 2019 and 2020	53,143	53,063
Treasury stock at cost; 1,146,571 and 1,146,571 shares as of March 31, 2019 and 2020	(2,821)	(2,821)
Additional paid-in capital	7,989	8,005
Accumulated other comprehensive income	5,316	5,316
Retained earnings	16,695	20,401
Total shareholders' equity	80,322	83,964
Total liabilities and shareholders' equity	\$ 95,379	\$ 100,169

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

	Six months ended		Year ended	
	March 31,		March 31,	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Net sales	\$ 27,655	\$ 31,786	\$ 65,368	\$ 66,581
Cost of sales	<u>22,335</u>	<u>26,306</u>	<u>53,504</u>	<u>56,311</u>
Gross profit	5,320	5,480	11,864	10,270
Selling, general and administrative expenses	4,818	4,696	10,026	9,459
Other expense, net	<u>245</u>	<u>501</u>	<u>425</u>	<u>278</u>
Operating income	257	283	1,413	533
Non-operating income, (expense), net	<u>(2,579)</u>	<u>1,402</u>	<u>(2,360)</u>	<u>3,884</u>
Income (loss) before income taxes	(2,322)	1,685	(947)	4,417
Income taxes	<u>247</u>	<u>169</u>	<u>373</u>	<u>144</u>
Net income (loss) attributable to Deswell Industries, Inc.	\$ (2,569)	\$ 1,516	\$ (1,320)	\$ 4,273
Other comprehensive income				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total comprehensive income (loss) attributable to Deswell Industries, Inc.	<u>\$ (2,569)</u>	<u>\$ 1,516</u>	<u>\$ (1,320)</u>	<u>\$ 4,273</u>
Net income per share attributable to Deswell Industries, Inc. (note 4)				
Basic:				
Net income (loss) per share	<u>\$ (0.16)</u>	<u>\$ 0.10</u>	<u>\$ (0.08)</u>	<u>\$ 0.27</u>
Weighted average common shares outstanding shares (in thousands)	<u>15,915</u>	<u>15,885</u>	<u>15,914</u>	<u>15,885</u>
Diluted:				
Net income (loss) per share	<u>\$ (0.16)</u>	<u>\$ 0.10</u>	<u>\$ (0.08)</u>	<u>\$ 0.27</u>
Weighted average common shares outstanding shares (in thousands)	<u>15,966</u>	<u>15,969</u>	<u>16,020</u>	<u>16,059</u>

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

(U.S. dollars in thousands)

	Year ended Mar 31,	
	<u>2020</u>	<u>2019</u>
Cash flows from operating activities :		
Net (loss) income	\$ (1,320)	\$ 4,273
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation and amortization	1,973	2,114
Provision for doubtful accounts, net	297	403
Additional charges for obsolescence allowance of inventories, net	426	256
(Gain) loss on disposal of property, plant and equipment	(29)	22
Unrealized holding loss (gain) on marketable securities	5,179	(891)
Gain on sales of marketable securities	(29)	(746)
Deferred income tax	92	(116)
Scrip dividend received	356	(33)
Changes in operating assets and liabilities :		
Accounts receivable	3,136	(225)
Inventories	4,026	(353)
Prepaid expenses and other current assets	254	261
Accounts payable	(1,649)	(2,343)
Accrued payroll and employee benefits	401	110
Customer deposits	(126)	(409)
Other accrued liabilities	56	(211)
Income taxes payable	78	54
Net cash provided by operating activities	13,121	2,166
Cash flows from investing activities		
Purchase of property, plant and equipment	(507)	(878)
Proceeds from sale of property, plant and equipment, net of transaction costs	188	25
Purchase of marketable securities	(2,121)	(12,704)
Proceeds from sales of marketable securities	1,620	7,210
Release of (increase in) fixed deposits maturing over three months	(412)	1,819
(Increase) decrease in fixed deposits maturing over twelve months	(1,424)	3,129
Net cash used in investing activities	(2,656)	(1,399)
Cash flows from financing activities		
Dividends paid	(2,386)	(1,588)
Exercise of stock options	64	-
Net cash used in financing activities	(2,322)	(1,588)
Net (decrease) increase in cash and cash equivalents	8,143	(821)
Cash and cash equivalents, beginning of year	14,371	15,192
Cash and cash equivalents, end of year	22,514	14,371
Supplementary disclosures of cash flow information :		
Cash paid during the year for :		
Interest	-	-
Income taxes	160	149

