

Deswell Announces First Half 2019 Results

Company Announces First Half Cash Dividend of \$0.06 Per Share

FOR IMMEDIATE RELEASE

MACAO (November 15, 2018) - Deswell Industries, Inc. (Nasdaq: DSWL) today announced its unaudited financial results for the first six months of fiscal 2019, ended September 30, 2018.

Net sales for the six months ended September 30, 2018 were \$34.8 million, an increase of 16.9% compared to net sales of \$29.8 million for the six months ended September 30, 2017. Net sales decreased by 1% to \$13.6 million in the plastic segment and increased by 32.4% to \$21.2 million in the Company's electronic segment.

Total gross margin decreased to 13.8% of net sales during the six months ended September 30, 2018, as compared to 19.6% of net sales in the same period last year. Gross profit margin in the plastic segment decreased to 16.4% of net sales for the first half of fiscal 2019, compared to 24.3% of net sales for the corresponding period of last fiscal year. The decrease in gross profit and margin in the plastic segment was mainly due to increases in raw materials cost, offsetting a slight decrease in labor costs and subcontracting charges, as a percentage of sales. Gross profit margin in the electronic segment decreased to 12.1% of net sales for the first half of fiscal 2019, compared to 15.5% of net sales for the corresponding period of last fiscal year. The decrease in gross margin in the electronic segment was mainly attributable to an increase in raw materials costs, as a percentage of net sales. Operating income in the first half of fiscal 2019 was \$0.2 million, compared to operating income of \$1.6 million for the same period of fiscal 2018.

The Company reported net income of \$2.8 million for the six months ended September 30, 2018, compared to net income of \$3.7 million for the six months ended September 30, 2017. This was primarily due to a decrease in gross profit, as a percentage of sales, for the six months ended September 30, 2018. Deswell reported basic and diluted income per share of \$0.17 for the first half of fiscal 2019 (based on 15,885,000 and 15,975,000 weighted average shares outstanding, respectively), compared to basic and diluted income per share of \$0.23 (based on 15,885,000 weighted average shares outstanding), for the six months ended September 30, 2017.

The Company's financial position remained strong, with \$15.5 million in cash and cash equivalents and working capital totaled \$53.4 million as of September 30, 2018. Furthermore, the Company has no long-term or short-term borrowings as of September 30, 2018.

Mr. Edward So, Chief Executive Officer, commented, "We saw solid double-digit growth in our consolidated revenue driven by a 32% improvement in our electronic segment. This revenue increase was primarily attributable to increased orders from new and existing customers for professional audio equipment and home entertainment products. Gross margin in both our plastics and electronics business was lower during the period due to higher raw material costs. Throughout the first half of the fiscal year, the entire electronics industry faced shortages of semiconductors and other electronic components. While this impacted our margins, we were able to proactively manage the situation with our customers and effectively service their needs. Our balance sheet remains strong, and we continue to focus on expanding our business with both new and existing customers. On the other hand, in order to mitigate the uncertainties caused by the trade war between the US and China, we are studying the feasibility of reallocating part of the production to Southeast Asian countries."

First Half Dividend

The Company also announces that its board of directors today declared a cash dividend of \$0.06 per share for the first half of the fiscal year ended September 30, 2018. The dividend will be payable on December 18, 2018 to shareholders of record as of November 27, 2018.

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)

	September 30, <u>2018</u> (Unaudited)	March 31, <u>2017</u> (Audited)
ASSETS		
Current assets :		
Cash and cash equivalents	\$ 15,482	\$ 15,192
Fixed deposits maturing over three months	500	2,190
Time deposits maturing over twelve months – current portion	2,923	3,129
Marketable securities	18,937	17,282
Accounts receivable, net	19,288	15,912
Inventories	12,970	12,933
Prepaid expenses and other current assets	1,951	2,267
Total current assets	72,051	68,905
Property, plant and equipment - net	30,612	31,494
Total assets	\$ 102,663	\$ 100,399
 LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 9,189	\$ 8,596
Accrued payroll and employee benefits	5,566	5,566
Customer deposits	1,370	1,707
Other accrued liabilities	1,915	1,873
Income taxes payable	626	603
Total current liabilities	18,666	18,345
Deferred income tax liabilities	596	775
Total liabilities	19,262	19,120
Shareholders' equity		
Common shares nil par value - authorized 30,000,000 shares; 15,885,239 shares issued and outstanding as of September 30, 2018 and March 31, 2018	53,063	53,063
Additional paid-in capital	5,184	5,184
Accumulated other comprehensive income	5,316	5,316
Retained earnings	19,838	17,716
Total shareholders' equity	83,401	81,279
Total liabilities and shareholders' equity	\$ 102,663	\$ 100,399

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

	Six months ended September 30,	
	<u>2018</u>	<u>2017</u>
Net sales	\$ 34,795	\$ 29,759
Cost of sales	<u>30,005</u>	<u>23,938</u>
Gross profit	4,790	5,821
Selling, general and administrative expenses	4,763	4,434
Other income (expense), net	<u>223</u>	<u>198</u>
Operating income (loss)	250	1,585
Non-operating income, net	<u>2,482</u>	<u>2,130</u>
Income before income taxes	2,732	3,715
Income taxes	<u>(25)</u>	<u>46</u>
Net income attributable to Deswell Industries, Inc.	\$ 2,757	\$ 3,669
Other comprehensive income (loss)	<u>\$ -</u>	<u>\$ -</u>
Comprehensive income (loss) attributable to Deswell Industries, Inc.	<u>\$ 2,757</u>	<u>\$ 3,669</u>
Net income per share attributable to Deswell Industries, Inc.		
Basic:		
Net income per share	<u>\$ 0.17</u>	<u>\$ 0.23</u>
Weighted average common shares outstanding shares (in thousands)	<u>15,885</u>	<u>15,885</u>
Diluted:		
Net income per share	<u>\$ 0.17</u>	<u>\$ 0.23</u>
Weighted average number of shares outstanding (in thousands)	<u>15,975</u>	<u>15,885</u>

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

	Six months ended September 30, <u>2018</u>	Six months ended September 30, <u>2017</u>
Cash flows from operating activities :		
Net income	\$ 2,757	\$ 3,669
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,099	1,054
(Reversal of) provision for doubtful accounts	58	(84)
Allowances for obsolete inventories	69	85
(Gain) Loss on disposal of property, plant and equipment	(1)	17
Unrealized holding gain on marketable securities	(1,109)	(537)
Realized gain on disposal of marketable securities	(396)	(340)
Scrip dividend received	-	(139)
Deferred tax	(179)	3
Changes in operating assets and liabilities :		
Accounts receivable	(3,434)	(1,780)
Inventories	(106)	(2,608)
Prepaid expenses and other current assets	316	443
Accounts payable	593	1,843
Accrued payroll and employee benefits	-	765
Customer deposits	(337)	(50)
Other accrued liabilities	42	(257)
Income taxes payable	23	54
Net cash provided by (used in) operating activities	(605)	2,138
Cash flows from investing activities		
Purchase of property, plant and equipment	(229)	(577)
Proceeds from disposal of property, plant and equipment	13	6
Purchase of marketable securities	(5,004)	(435)
Proceeds from disposal of marketable securities	4,854	1,928
Increase in fixed deposits maturing over three months	1,690	3,306
(Increase in) decrease in fixed deposits maturing over twelve months	206	(1,619)
Net cash provided by investing activities	1,530	2,609
Cash flows from financing activities		
Dividend paid	(635)	(1,112)
Net cash used in financing activities	(635)	(1,112)
Cash effect of exchange rate changes	-	-
Net increase (decrease) in cash and cash equivalents	290	3,635
Cash and cash equivalents, at beginning of period	15,192	8,078
Cash and cash equivalents, at end of period	15,482	11,713
Supplementary disclosures of cashflow information:		
Cash paid during the period for:		
Interest	-	-
Income taxes	-	8