

Deswell Announces First Half 2021 Results

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

FOR IMMEDIATE RELEASE

MACAO (November 10, 2020) - Deswell Industries, Inc. (Nasdaq: DSWL) today announced its unaudited financial results for the first six months of fiscal 2021, ended September 30, 2020.

Net sales for the six months ended September 30, 2020 were \$27.7 million, a decrease of 26.6% compared to net sales of \$37.7 million for the six months ended September 30, 2019. Net sales decreased by 40.4% to \$8.7 million in the plastic segment and decreased by 17.8% to \$18.9 million in the Company's electronic segment.

Total gross margin increased to 20.2% of net sales during the six months ended September 30, 2020, as compared to 17.4% of net sales in the same period last year. Gross profit margin in the plastic segment decreased slightly to 20.4% of net sales for the first half of fiscal 2021, compared to 21.0% of net sales for the corresponding period of last fiscal year. The slight decrease in gross profit and margin in the plastic segment was mainly due to an increase in factory overheads as a percentage of net sales, offsetting decreases in raw materials cost and subcontracting charges. Gross profit margin in the electronic segment increased to 20.1% of net sales for the first half of fiscal 2021, compared to 15.0% of net sales for the corresponding period of last fiscal year. The increase in gross profit and margin in the electronic segment was mainly attributable to decreases in raw materials cost, as a result of cost control measures in the first six months of fiscal 2021. Operating income in the first half of fiscal 2021 was \$1.0 million, compared to operating income of \$1.2 million for the same period of fiscal 2020.

The Company reported net income of \$1.5 million for the six months ended September 30, 2020, compared to net income of \$1.2 million for the six months ended September 30, 2019. This was primarily due to an increase in gross profit margin and non-operating income, as a percentage of sales, for the six months ended September 30, 2020. Deswell reported basic and diluted income per share of \$0.10 for the first half of fiscal 2021 (based on 15,915,000 and 15,959,000 weighted average shares outstanding), compared to basic and diluted income per share of \$0.08 for the first half of fiscal 2021 (based on 15,912,000 and 15,973,000 weighted average shares outstanding) respectively, for the six months ended September 30, 2019.

The Company's financial position remained strong, with \$19.4 million in cash and cash equivalents and working capital totaled \$53.5 million as of September 30, 2020. Furthermore, the Company has no long-term or short-term borrowings as of September 30, 2020.

Mr. Edward So, Chief Executive Officer, commented, "The worldwide Covid epidemic significantly impacted our business during the six month period limiting support from company employees and consultants overseas, disrupting our supply chain and delaying product delivery to customers. We did see revenue improve a bit in the back half of the six month period and are confident that revenue will improve as the pandemic subsides.

"In spite of the significant revenue decrease, I am very pleased with our ability to improve gross margin to 20 percent from 17 percent of sales and minimized the decrease in operating income primarily by aggressively improving our labor efficiency and reducing overhead.

"Finally, the Hong Kong stock market was less volatile in the first 6 months of current fiscal year resulting in a reduced unrealized loss on marketable securities by \$725,000 which helped us report an increase in net income for the six month period."

First Half Dividend

The Company also announces that its board of directors today declared a cash dividend of \$0.09 per share for the first half of the fiscal year ended September 30, 2020. The dividend will be payable on December 10, 2020 to shareholders of record as of November 23, 2020.

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>2020</u> (Unaudited)	March 31, <u>2020</u> (Audited)
ASSETS		
Current assets :		
Cash and cash equivalents	\$ 19,439	\$ 22,514
Fixed deposits maturing over three months	3,489	783
Time deposits maturing over twelve months-current portion	1,451	-
Marketable securities (note 2)	21,901	19,441
Accounts receivable, net	14,017	12,301
Inventories (note 3)	10,164	8,578
Prepaid expenses and other current assets	1,608	1,752
Total current assets	72,069	65,369
Property, plant and equipment - net	27,766	28,586
Time deposits maturing over twelve months	-	1,424
Total assets	\$ 99,835	\$ 95,379
 LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 8,207	\$ 4,604
Accrued payroll and employee benefits	6,415	6,077
Customer deposits	1,305	1,172
Other accrued liabilities	1,824	1,718
Income taxes payable	830	735
Total current liabilities	18,581	14,306
Deferred income tax liabilities	832	751
Total liabilities	19,413	15,057
 Shareholders' equity		
Common shares nil par value - authorized 30,000,000 shares, 17,061,810 shares issued as of March 31, 2020 and September 30, 2020; 15,915,239 shares outstanding as of March 31, 2020 and September 30, 2020	53,143	53,143
Treasury stock at cost; 1,146,571 and 1,146,571 shares as of March 31, 2020 and September 30, 2020	(2,821)	(2,821)
Additional paid-in capital	7,989	7,989
Accumulated other comprehensive income	5,316	5,316
Retained earnings	16,795	16,695
Total shareholders' equity	80,422	80,322
Total liabilities and shareholders' equity	\$ 99,835	\$ 95,379

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,	
	2020	2019
Net sales	\$ 27,690	\$ 37,713
Cost of sales	22,095	31,169
Gross profit	5,595	6,544
Selling, general and administrative expenses	4,720	5,208
Other income (expense), net	84	(180)
Operating income	959	1,156
Non-operating income, net	804	219
Income before income taxes	1,763	1,375
Income taxes	231	126
Net income attributable to Deswell Industries, Inc.	\$ 1,532	\$ 1,249
Other comprehensive income	\$ -	\$ -
Comprehensive income attributable to Deswell Industries, Inc.	\$ 1,532	\$ 1,249
Net income per share attributable to Deswell Industries, Inc. (note 4)		
Basic:		
Net income per share	\$ 0.10	\$ 0.08
Weighted average common shares outstanding shares (in thousands)	15,915	15,912
Diluted:		
Net income per share	\$ 0.10	\$ 0.08
Weighted average common shares outstanding shares (in thousands)	15,959	15,973

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

(U.S. dollars in thousands)

	Six months ended September 30,	
	<u>2020</u>	<u>2019</u>
Cash flows from operating activities :		
Net income	\$ 1,532	\$ 1,249
Adjustments to reconcile net income to net cash:		
Depreciation and amortization	895	1,014
Provision for doubtful accounts, net	432	202
Allowance for obsolete inventories	132	53
Loss on disposal of property, plant and equipment	10	34
Unrealized holding loss on marketable securities	527	1,252
Realized gain on disposal of marketable securities	(54)	(29)
Scrip dividend received	(448)	10
Deferred tax	81	(28)
Changes in operating assets and liabilities :		
Accounts receivable	(2,148)	(6,036)
Inventories	(1,718)	2,114
Prepaid expenses and other current assets	144	(6)
Accounts payable	3,603	2,470
Accrued payroll and employee benefits	338	368
Customer deposits	133	(217)
Other accrued liabilities	106	100
Income taxes payable	95	49
Net cash provided by operating activities	<u>3,660</u>	<u>2,599</u>
Cash flows from investing activities		
Purchase of property, plant and equipment	(85)	(270)
Proceeds from sale of property, plant and equipment, net of transaction costs	-	5
Purchase of marketable securities	(3,026)	(1,264)
Proceeds from disposal of marketable securities	541	1,620
Increase in fixed deposits maturing over three months	(2,706)	(1,471)
Increase in fixed deposits maturing over twelve months	(27)	(1,417)
Net cash used in investing activities	<u>(5,303)</u>	<u>(2,797)</u>
Cash flows from financing activities		
Dividends paid	(1,432)	(1,114)
Exercise of stock options	-	64
Net cash used in financing activities	<u>(1,432)</u>	<u>(1,050)</u>
Net decrease in cash and cash equivalents	(3,075)	(1,248)
Cash and cash equivalents, beginning of period	<u>22,514</u>	<u>14,371</u>
Cash and cash equivalents, end of period	<u><u>19,439</u></u>	<u><u>13,123</u></u>
Supplementary disclosures of cash flow information :		
Cash paid during the year for :		
Interest	-	-
Income taxes	78	57

