

Deswell Announces First Half 2022 Results

- Company Announces First Half Cash Dividend of 0.10 Per Share -

FOR IMMEDIATE RELEASE

MACAO (November 22, 2021) - Deswell Industries, Inc. (Nasdaq: DSWL) today announced its unaudited financial results for the first six months of fiscal 2022, ended September 30, 2021.

Net sales for the six months ended September 30, 2021 were \$39.8 million, an increase of 43.7% compared to net sales of \$27.7 million for the six months ended September 30, 2020. Net sales increased by 13.5% to \$9.9 million in the plastic segment and increased by 57.6% to \$29.8 million in the Company's electronic segment.

Total gross margin decreased to 16.1% of net sales during the six months ended September 30, 2021, as compared to 20.2% of net sales in the same period last year. Gross profit margin in the plastic segment decreased to 10.7% of net sales for the first half of fiscal 2022, compared to 20.4% 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, as well as in basic pay rate of labor costs. Gross profit margin in the electronic segment decreased to 17.9% of net sales for the first half of fiscal 2022, compared to 20.1% of net sales for the corresponding period of last fiscal year. The decrease in gross margin in the electronic segment was mainly attributable to increases in raw materials cost, as well as in headcount and pay rate of labor cost for the first six months of fiscal 2022. Operating income in the first half of fiscal 2022 was \$1.2 million, compared to operating income of \$1.0 million for the same period of fiscal 2021.

The Company reported net income of \$4.3 million for the six months ended September 30, 2021, compared to net income of \$1.5 million for the six months ended September 30, 2020. This was primarily due to an increase in non-operating income, as a percentage of sales, for the six months ended September 30, 2021. Deswell reported basic and diluted income per share of \$0.27 for the first half of fiscal 2022 (based on 15,923,000 and 16,041,000 weighted average shares outstanding), as compared to basic and diluted income per share of \$0.10 (based on 15,915,000 and 15,959,000 weighted average shares outstanding) respectively, for the six months ended September 30, 2020.

The Company's financial position remained strong, with \$17.4 million in cash and cash equivalents and working capital totaled \$61.8 million as of September 30, 2021. Furthermore, the Company has no long-term or short-term borrowings as of September 30, 2021.

Mr. Edward So, Chief Executive Officer, commented, "We're pleased to have delivered solid revenue growth in the first half of fiscal 2022, driven by sales growth in both our plastics and our electronics segments. Demand for home audio and entertainment equipment remains strong and as more economies start to fully reopen, with the return of live performances and concerts, we're also seeing an uptick in sales of professional audio equipment.

"While no business is immune to ongoing worldwide supply chain challenges, we have been effectively managing through the global component shortage thanks largely to our longstanding relationships and close collaborations with our suppliers as well as with our customers. We recognize that this is a fluid situation and we will remain vigilant as we, and the rest of our industry navigate supply challenges."

Mr. So concluded, "Our balance sheet is solid and continues to provide us with the financial flexibility to focus on our long-term performance. With no debt and a strong cash position, we are well positioned to grow our existing customer relationships and to add new customers. Additionally, we have invested \$822 thousand in our manufacturing equipment, including SMT machines and injection molding

machines, demonstrating our commitment to executing our long-term growth strategy and to enhancing our position as a reliable manufacturing partner for both existing and new customers. We're encouraged by the opportunities we're seeing in the marketplace and focused on operational execution with the goal of driving continued profitability and shareholder value as we move through fiscal year 2022."

First Half Dividend

The Company also announces that its board of directors today declared a cash dividend of \$0.10 per share for the first half of the fiscal year ended September 30, 2021. The dividend will be payable on December 22, 2021 to shareholders of record as of December 6, 2021.

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>2021</u> (Unaudited)	March 31, <u>2021</u> (Audited)
ASSETS		
Current assets :		
Cash and cash equivalents	\$ 17,379	\$ 20,223
Fixed deposits maturing over three months	3,070	2,700
Time deposits maturing over twelve months - current portion	1,543	-
Marketable securities (note 3)	24,316	22,373
Accounts receivable, net	17,502	14,708
Inventories (note 2)	20,992	16,193
Prepaid expenses and other current assets	3,420	2,489
Total current assets	88,222	78,686
Property, plant and equipment - net	27,246	27,323
Time deposits maturing over twelve months	308	1,851
Total assets	\$ 115,776	\$ 107,860
 LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 12,157	\$ 9,522
Accrued payroll and employee benefits	7,630	7,107
Customer deposits	3,156	1,683
Other accrued liabilities	2,409	2,016
Income taxes payable	1,063	886
Total current liabilities	26,415	21,214
Deferred income tax liabilities	923	957
Total liabilities	27,338	22,171

Shareholders' equity

Common shares nil par value; authorized 30,000,000 shares; 17,061,810, and 17,081,810 shares issued as of March 31, 2021 and September 30, 2021; 15,915,239 and 15,935,239 shares outstanding as of March 31, 2021 and September 30, 2021	53,202	53,143
Treasury stock at cost; 1,146,571 and 1,146,571 shares as of March 31, 2021 and September 30, 2021	(2,821)	(2,821)
Additional paid-in capital	7,973	7,989
Accumulated other comprehensive income	5,316	5,316
Retained earnings	<u>24,768</u>	<u>22,062</u>
Total shareholders' equity	<u>88,438</u>	<u>85,689</u>
Total liabilities and shareholders' equity	<u>\$ 115,776</u>	<u>\$ 107,860</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,	
	2021	2020
Net sales	\$ 39,782	\$ 27,690
Cost of sales	33,362	22,095
Gross profit	6,420	5,595
Selling, general and administrative expenses	5,348	4,720
Other income, net	111	84
Operating income	1,183	959
Non-operating income, net	3,288	804
Income before income taxes	4,471	1,763
Income taxes	173	231
Net income attributable to Deswell Industries, Inc.	\$ 4,298	\$ 1,532
Other comprehensive income	\$ -	\$ -
Comprehensive income attributable to Deswell Industries, Inc.	\$ 4,298	\$ 1,532
Net income per share attributable to Deswell Industries, Inc. (note 4)		
Basic:		
Net income per share	\$ 0.27	\$ 0.10
Weighted average common shares outstanding shares (in thousands)	15,923	15,915
Diluted:		
Net income per share	\$ 0.27	\$ 0.10
Weighted average number of shares outstanding (in thousands)	16,041	15,959

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

(U.S. dollars in thousands)	Six months ended September 30, <u>2021</u>	Six months ended September 30, <u>2020</u>
Cash flows from operating activities :		
Net income	\$ 4,298	\$ 1,532
Adjustments to reconcile net income to net cash provided by operating activities :		
Depreciation and amortization	883	895
(Reversal of) provision for doubtful accounts	(163)	432
(Reversal of) additional charges for obsolescence allowance of inventories, net	(293)	132
Loss on disposal of property, plant and equipment	-	10
Unrealized holding (gain) loss on marketable securities	(845)	527
Realized gain on disposal of marketable securities	(653)	(54)
Scrip dividend received	-	(448)
Exchange loss from marketable securities	117	-
Deferred tax (credit) charge	(34)	81
Changes in operating assets and liabilities:		
Accounts receivable	(2,631)	(2,148)
Inventories	(4,506)	(1,718)
Prepaid expenses and other current assets	(931)	144
Accounts payable	2,635	3,603
Accrued payroll and employee benefits	523	338
Customer deposits	1,473	133
Other accrued liabilities	393	106
Income taxes payable	177	95
Net cash provided by operating activities	443	3,660
Cash flows from investing activities		
Purchase of property, plant and equipment	(822)	(85)
Proceeds from disposal of property, plant and equipment,	16	-
Purchase of marketable securities	(7,301)	(3,026)

Proceeds from disposal of marketable securities	6,739	541
Increase in fixed deposits maturing over three months	(370)	(2,706)
Increase in fixed deposits maturing over twelve months	-	(27)
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Net cash used in investing activities	<u>(1,738)</u>	<u>(5,303)</u>
Cash flows from financing activities		
Dividends paid	(1,592)	(1,432)
Exercise of stock options	43	-
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Net cash used in financing activities	<u>(1,549)</u>	<u>(1,432)</u>
Cash effect of exchange rate changes		
Net decrease in cash and cash equivalents	(2,844)	(3,075)
Cash and cash equivalents, at beginning of period	20,223	22,514
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Cash and cash equivalents, at end of period	<u>17,379</u>	<u>19,439</u>
Supplementary disclosures of cashflow information :		
Cash paid during the period for :		
Interest	-	-
Income taxes	89	78
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