

Deswell Announces Second Half 2022 Results

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

FOR IMMEDIATE RELEASE

MACAO (June 16, 2022) - Deswell Industries, Inc. (Nasdaq: DSWL) today announced its unaudited financial results for the second half of the fiscal year ended March 31, 2022.

Net sales for the six months ended March 31, 2022 were \$45.7 million, an increase of 22.9% compared to net sales of \$37.2 million for the six months ended March 31, 2021. Net sales increased by 16.3% to \$12.9 million in the plastic segment and by 25.7% to \$32.8 million in the Company's electronic segment.

Total gross margin decreased to 16.5% during the six months ended March 31, 2022, as compared to 20.4% in the same period last year. Gross profit margin in the plastic segment decreased to 19.2% of net sales for the second half of fiscal 2022, as compared to 26.0% of net sales for the corresponding period of the last fiscal year. For the electronic segment, gross profit margin decreased from 17.9% in the second half of fiscal 2021 to 15.4% in the second half of fiscal 2022. The decrease in the gross profit margin in both the plastic and electronic segments is mainly attributable to increase in raw materials costs, such as plastic resins and semiconductor chips, respectively, as a result of the continuing shortage in supply and pricing volatility, as well as surging demand in the automotive industry for these primary materials, which resulted in the increased cost of semi-conductor chips.

Operating income for the second half of fiscal 2022 decreased from \$2.3 million in the second half of fiscal 2021 to \$1.7 million in the second half of fiscal 2022.

The Company reported net income of \$4.1 million for the six months ended March 31, 2022, as compared to net income of \$6.7 million for the six months ended March 31, 2021. Non-operating income for the six months ended March 31, 2022 was \$2.0 million, as compared to a non-operating income of \$4.6 million in the six months ended March 31, 2021. Non-operating income during the six months ended March 31, 2022 was primarily comprised of unrealized gain in marketable securities of \$27,000, \$1,027,000 from rental income, \$454,000 of dividend income from securities investments, and realized gain of \$419,000 from the sale of marketable securities, as compared to an unrealized gain in marketable securities of \$2,538,000, rental income of \$1,214,000, dividend income of \$482,000 from securities investments and realized gain of \$279,000 from the sale of marketable securities in the second half of fiscal 2021. Deswell reported basic and diluted income per share of \$0.25 for the second half of fiscal 2022 (based on 15,935,000 and 16,038,000 weighted average shares outstanding, respectively), as compared to basic and diluted income per share of \$0.42 (based on 15,915,000 and 15,995,000 weighted average shares outstanding), for the six months ended March 31, 2021.

Net sales for the year ended March 31, 2022 were \$85.5 million, an increase of 31.8% compared to net sales of \$64.9 million for fiscal 2021. Operating income for the year ended March 31, 2022 decreased to \$2.9 million, as compared to operating income of \$3.3 million for fiscal 2021. The Company reported net income of \$8.4 million in fiscal 2022, as compared to net income of \$8.2 million for the year ended March 31, 2021. The increase in net income was mainly attributed to the increase of sales, offsetting by the decrease in gross profit margin due to increased raw materials cost in fiscal 2022. Deswell reported basic and diluted net income per share of \$0.52 for fiscal 2022, (based on 15,929,000 and 16,137,000 weighted average shares outstanding, respectively), as compared to basic net income per share of \$0.52 and diluted net income per share of \$0.51 (based on 15,915,000 and 16,047,000 weighted average shares outstanding), for the prior fiscal year.

The Company's financial position remained strong, with \$13.5 million in cash and cash equivalents and working capital totaling \$64.0 million as of March 31, 2022. Furthermore, the Company has no long-term or short-term borrowings as of March 31, 2022.

Mr. Edward So, Chief Executive Officer, commented, "We concluded fiscal year 2022 with strong revenue growth during the second half, reflecting significantly improved sales in both the plastics and the electronics segments. Sales growth in the plastics business was largely driven by increased orders from a new customer for robotic mops and vacuum cleaners and in the electronics segment we saw continued demand for home audio and entertainment equipment as well as returning demand for professional audio instruments and equipment. That said, despite the strong sales activity, we experienced margin compression related to increased raw material costs in both segments, and particularly in the electronics segment, as a result of the continued scarcity of semi-

conductor chips coupled with surging demand from other industries including automotive. We continue to leverage our longstanding supplier relationships to mitigate the effects of the global component shortage and limited supply. Additionally, throughout fiscal 2022, certain quarantines and restrictions related to Covid-19 outbreaks persisted, and Deswell continued to effectively manage our operations and production.”

Mr. So concluded, “Our balance sheet remains solid, with a strong cash position and no debt, providing us the financial resources to continue executing our long-term growth strategy to grow our market recognition among existing and potential new customers as a consistent and reliable manufacturing partner. As we begin moving through fiscal 2023, we remain focused on delivering operational excellence to capitalize on the interest we’re seeing from the marketplace, with the goal of driving continued growth and profitability moving forward.”

Second Half Dividend

The Company also announced that its board of directors today declared a cash dividend of \$0.10 per share for the second half of the fiscal year ended March 31, 2022. The dividend will be payable on July 15, 2022 to shareholders of record as of June 30, 2022.

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, professional audio equipment, home audio products, and Internet-of-Things (IoT) products.

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.

Investor Relations Contact:

John Nesbett/Jennifer Belodeau
IMS Investor Relations
203.972.9200

DESWELL INDUSTRIES, INC.
CONSOLIDATED BALANCE SHEET
(U.S. dollars in thousands)

	March 31, <u>2022</u> (Unaudited)	March 31, <u>2021</u> (Audited)
ASSETS		
Current assets :		
Cash and cash equivalents	\$ 13,465	\$ 20,223
Time deposits maturing over three months	4,354	2,700
Time deposits maturing over twelve months-current	1,564	-
Marketable securities (note2)	24,499	22,373
Accounts receivable, net	18,195	14,708
Inventories (note 3)	23,819	16,193
Prepaid expenses and other current assets	2,054	2,489
Total current assets	87,950	78,686
Property, plant and equipment - net	27,017	27,323
Time deposits maturing over twelve months	313	1,851
Deferred income tax assets	259	-
Total assets	\$ 115,539	\$ 107,860
 LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 9,838	\$ 9,522
Accrued payroll and employee benefits	7,611	7,107
Customer deposits	2,343	1,683
Other accrued liabilities	2,950	2,016
Income taxes payable	1,232	886
Total current liabilities	23,974	21,214
Deferred income tax liabilities	659	957
Total liabilities	24,633	22,171
 Shareholders' equity		
Common shares nil par value - authorized 30,000,000 shares, 17,061,810 shares issued as of March 31, 2021 and, 17,081,810 shares issued as of March 31, 2022; 15,915,239 shares outstanding as of March 31, 2021 and, 15,935,239 shares outstanding as of March 31, 2022	53,202	53,143
Treasury stock at cost; 1,146,571 shares as of March 31, 2021 and 2022	(2,821)	(2,821)
Additional paid-in capital	7,973	7,989
Accumulated other comprehensive income	5,316	5,316
Retained earnings	27,236	22,062
Total shareholders' equity	90,906	85,689
Total liabilities and shareholders' equity	\$ 115,539	\$ 107,860

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

	Six months ended		Year ended	
	March 31,		March 31,	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Net sales	\$ 45,708	\$ 37,196	\$ 85,490	\$ 64,886
Cost of sales	<u>38,176</u>	<u>29,625</u>	<u>71,538</u>	<u>51,720</u>
Gross profit	7,532	7,571	13,952	13,166
Selling, general and administrative expenses	5,791	5,590	11,139	10,310
Other income (expense), net	<u>(37)</u>	<u>321</u>	<u>74</u>	<u>405</u>
Operating income	1,704	2,302	2,887	3,261
Non-operating income, net	<u>2,020</u>	<u>4,641</u>	<u>5,308</u>	<u>5,445</u>
Income before income taxes	3,724	6,943	8,195	8,706
Income tax (benefit) expense	<u>(338)</u>	<u>244</u>	<u>(165)</u>	<u>475</u>
Net income attributable to Deswell Industries, Inc.	\$ 4,062	\$ 6,699	\$ 8,360	\$ 8,231
Other comprehensive income	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total comprehensive income attributable to Deswell Industries, Inc.	<u>\$ 4,062</u>	<u>\$ 6,699</u>	<u>\$ 8,360</u>	<u>\$ 8,231</u>
Net income per share attributable to Deswell Industries, Inc. (note 4)				
Basic:				
Net income per share	<u>\$ 0.25</u>	<u>\$ 0.42</u>	<u>\$ 0.52</u>	<u>\$ 0.52</u>
Weighted average common shares outstanding shares (in thousands)	<u>15,935</u>	<u>15,915</u>	<u>15,929</u>	<u>15,915</u>
Diluted:				
Net income per share	<u>\$ 0.25</u>	<u>\$ 0.42</u>	<u>\$ 0.52</u>	<u>\$ 0.51</u>
Weighted average common shares outstanding (in thousands)	<u>16,038</u>	<u>15,995</u>	<u>16,137</u>	<u>16,047</u>

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

(U.S. dollars in thousands)

	Year ended March 31,	
	<u>2022</u>	<u>2021</u>
Cash flows from operating activities :		
Net income	\$ 8,360	\$ 8,231
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,736	1,755
(Reversal of) provision for credit losses	(148)	397
Usage of obsolescence allowance of inventories, net	(25)	-
Loss (gain) on disposal of property, plant and equipment	24	(22)
Unrealized holding gains on marketable securities	(872)	(2,010)
Gain on sales of marketable securities	(1,073)	(333)
Scrip dividend received	-	(19)
Exchange loss (gain) from marketable securities	117	(661)
Deferred income tax (benefit) expense	(557)	206
Changes in operating assets and liabilities:		
Accounts receivable	(3,339)	(2,804)
Inventories	(7,601)	(7,615)
Prepaid expenses and other current assets	435	(737)
Accounts payable	316	4,918
Accrued payroll and employee benefits	504	1,030
Customer deposits	660	511
Other accrued liabilities	934	298
Income taxes payable	346	151
Net cash (used in) provided by operating activities	<u>(183)</u>	<u>3,296</u>
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,504)	(551)
Proceeds from disposal of property, plant and equipment	50	81
Purchase of marketable securities	(11,543)	(6,059)
Proceeds from disposal of marketable securities	11,245	6,150
Increase in fixed deposits maturing over three months	(1,654)	(1,917)
Increase in fixed deposits maturing over twelve months	(26)	(427)
Net cash used in investing activities	<u>(3,432)</u>	<u>(2,723)</u>
Cash flows from financing activities		
Dividends paid	(3,186)	(2,864)
Exercise of stock options	43	-
Net cash used in financing activities	<u>(3,143)</u>	<u>(2,864)</u>
Net decrease in cash and cash equivalents	(6,758)	(2,291)
Cash and cash equivalents, beginning of year	<u>20,223</u>	<u>22,514</u>
Cash and cash equivalents, end of year	<u><u>13,465</u></u>	<u><u>20,223</u></u>
Supplementary disclosures of cash flow information:		
Cash paid during the year for:		
Interest	-	-
Income taxes	68	236

