

Deswell Announces Second Half 2021 Results

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

FOR IMMEDIATE RELEASE

MACAO (June 9, 2021) - Deswell Industries, Inc. (Nasdaq: DSWL) today announced its unaudited financial results for the second half of the fiscal year ended March 31, 2021.

Net sales for the six months ended March 31, 2021 were \$37.2 million, an increase of 34.5% compared to net sales of \$27.7 million for the six months ended March 31, 2020. Net sales increased by 4.1% to \$11.1 million in the plastic segment and by 53.6% to \$26.1 million in the Company's electronic segment.

Total gross margin increased to 20.4% during the six months ended March 31, 2021, as compared to 19.2% in the same period last year. Gross profit margin in the plastic segment increased to 26.0% of net sales for the second half of fiscal 2021, as compared to 23.3% of net sales for the corresponding period of the last fiscal year. The increase in gross profit margin in the plastic segment was mainly due to a decrease in raw materials cost, offsetting the increase in factory overhead, as a percentage of sales. Gross profit margin for the electronic segment for the six months ended March 31, 2021 increased from 16.7% in the second half of fiscal 2020 to 17.9% in the second half of fiscal 2021. The increase was mainly due to increases in sales volume, increased percentage of sales of ODM products, and the implementation of cost control measures.

Operating income for the second half of fiscal 2021 increased from \$0.3 million in the second half of fiscal 2020 to \$2.3 million in the second half of fiscal 2021.

The Company reported net income of \$6.7 million for the six months ended March 31, 2021, as compared to net loss of \$2.6 million for the six months ended March 31, 2020. Non-operating income for the six months ended March 31, 2021 was \$4.6 million, as compared to a non-operating expense of \$2.6 million in the six months ended March 31, 2020. Non-operating income during the six months ended March 31, 2021 was primarily comprised of an increase of \$2,538,000 in the fair value of marketable securities held, \$1,214,000 from rental income, \$482,000 of dividend income from securities investments, and a \$279,000 realized gain from the sale of marketable securities, as compared to a decrease of \$3,927 in the fair value of marketable securities held, \$761,000 from rental income, \$485,000 of dividend income from securities investments and \$126,000 from interest income in the second half of fiscal 2020. Deswell reported basic and diluted income per share of \$0.42 for the second half of fiscal 2021 (based on 15,915,000 and 15,995,000 weighted average shares outstanding, respectively), as compared to a basic and diluted loss per share of \$0.16 (based on 15,915,000 and 15,966,000 weighted average shares outstanding), for the six months ended March 31, 2020.

Net sales for the year ended March 31, 2021 were \$64.9 million, a decrease of 0.7% compared to net sales of \$65.4 million for fiscal 2020. Operating income for the year ended March 31, 2021 increased to \$3.3 million, as compared to operating income of \$1.4 million for fiscal 2020. The Company reported net income of \$8.2 million in fiscal 2021, as compared to net loss of \$1.3 million for the year ended March 31, 2020. The increase in net income was mainly attributed to the non-operating income of \$5.4 million in fiscal 2021, as compared to the non-operating expense of \$2.4 million in fiscal 2020. Deswell reported a basic net income per share of \$0.52 and diluted net income per share of \$0.51 for fiscal 2021, (based on 15,915,000 and 16,047,000 weighted average shares outstanding, respectively), as compared to a basic and diluted loss per share of \$0.08 (based on 15,914,000 and 16,020,000 weighted average shares outstanding), for the prior fiscal year.

The Company's financial position remained strong, with \$20.2 million in cash and cash equivalents and working capital totaling \$59.0 million as of March 31, 2021. Furthermore, the Company has no long-term or short-term borrowings as of March 31, 2021.

Mr. Edward So, Chief Executive Officer, commented, "We are pleased with our fiscal 2021 results which included a strong increase in operating income despite the pandemic and ongoing global electronic component shortage. After a slow start to the second half of the fiscal year due to customers' conservative approach to placing orders because of the continued worldwide pandemic, we saw particularly strong growth in our electronics manufacturing division for the period. While the lockdown and social distancing had a significant impact on some

of our customers who cater to the music performance market, we saw significantly increased demand for both home recording and audio streaming products. Our net income for the full year was also positively impacted by the performance of our investments and approximately \$2 million in rental income generated from leased space at our facilities, which became available due to our identification of more efficient configuration and relocation of our equipment. Finally, we continue to proactively manage costs to maximize operating profitability.”

Mr. So concluded, “Our balance sheet remains strong and provides us with the financial flexibility to stay focused on the long-term performance of the business even as we navigate a challenging landscape. With a strong cash position and no debt, we look forward to continuing to expand our customer relationships and drive performance as the pandemic subsides.”

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, 2021. The dividend will be payable on July 9, 2021 to shareholders of record as of June 25, 2021.

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.

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

	March 31, <u>2021</u> (Unaudited)	March 31, <u>2020</u> (Audited)
ASSETS		
Current assets :		
Cash and cash equivalents	\$ 20,223	\$ 22,514
Fixed deposits maturing over three months	2,700	783
Time deposits maturing over twelve months-current portion	1,519	-
Marketable securities	22,373	19,441
Accounts receivable, net	14,708	12,301
Inventories	16,193	8,578
Prepaid expenses and other current assets	2,489	1,752
Total current assets	<u>80,205</u>	<u>65,369</u>
Property, plant and equipment - net	27,323	28,586
Time deposits maturing over twelve months	332	1,424
Total assets	<u>\$ 107,860</u>	<u>\$ 95,379</u>
 LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 9,522	\$ 4,604
Accrued payroll and employee benefits	7,107	6,077
Customer deposits	1,683	1,172
Other accrued liabilities	2,016	1,718
Income taxes payable	886	735
Total current liabilities	<u>21,214</u>	<u>14,306</u>
Deferred income tax liabilities	957	751
Total liabilities	<u>22,171</u>	<u>15,057</u>
 Shareholders' equity		
Common shares nil par value - authorized 30,000,000 shares, 17,061,810 shares issued as of March 31, 2020 and March 31, 2021; 15,915,239 shares outstanding as of March 31, 2020 and 2021	53,143	53,143
Treasury stock at cost; 1,146,571 shares as of March 31, 2020 and 2021	(2,821)	(2,821)
Additional paid-in capital	7,989	7,989
Accumulated other comprehensive income	5,316	5,316
Retained earnings	22,062	16,695
Total shareholders' equity	<u>85,689</u>	<u>80,322</u>
Total liabilities and shareholders' equity	<u>\$ 107,860</u>	<u>\$ 95,379</u>

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>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Net sales	\$ 37,196	\$ 27,655	\$ 64,886	\$ 65,368
Cost of sales	<u>29,625</u>	<u>22,335</u>	<u>51,720</u>	<u>53,504</u>
Gross profit	7,571	5,320	13,166	11,864
Selling, general and administrative expenses	5,590	4,818	10,310	10,026
Other income (expense), net	<u>321</u>	<u>(245)</u>	<u>405</u>	<u>(425)</u>
Operating income	2,302	257	3,261	1,413
Non-operating income (expense), net	<u>4,641</u>	<u>(2,579)</u>	<u>5,445</u>	<u>(2,360)</u>
Income (loss) before income taxes	6,943	(2,322)	8,706	(947)
Income taxes	<u>244</u>	<u>247</u>	<u>475</u>	<u>373</u>
Net income (loss) attributable to Deswell Industries, Inc.	\$ 6,699	\$ (2,569)	\$ 8,231	\$ (1,320)
Other comprehensive income	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Comprehensive income (loss) attributable to Deswell Industries, Inc.	<u>\$ 6,699</u>	<u>\$ (2,569)</u>	<u>\$ 8,231</u>	<u>\$ (1,320)</u>
Net income (loss) per share attributable to				
Deswell Industries, Inc				
Basic:				
Net income (loss) per share	<u>\$ 0.42</u>	<u>\$ (0.16)</u>	<u>\$ 0.52</u>	<u>\$ (0.08)</u>
Weighted average common shares outstanding				
shares (in thousands)	<u>15,915</u>	<u>15,915</u>	<u>15,915</u>	<u>15,914</u>
Diluted:				
Net income (loss) per share	<u>\$ 0.42</u>	<u>\$ (0.16)</u>	<u>\$ 0.51</u>	<u>\$ (0.08)</u>
Weighted average number of shares				
outstanding (in thousands)	<u>15,995</u>	<u>15,966</u>	<u>16,047</u>	<u>15,914</u>

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

(U.S. dollars in thousands)

	Year ended March 31,	
	<u>2021</u>	<u>2020</u>
Cash flows from operating activities :		
Net income (loss)	\$ 8,231	\$ (1,320)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	1,755	1,973
Provision for doubtful accounts, net	397	297
Additional charges for (reversal of) obsolescence allowance of inventories, net	(9)	426
Gain on disposal of property, plant and equipment	(22)	(29)
Unrealized holding (gain) loss on marketable securities	(2,010)	5,179
Gain on sales of marketable securities	(333)	(29)
Scrip dividend received	(19)	(175)
Deferred income tax expense	206	92
Exchange (gain) loss from marketable securities	(661)	531
Changes in operating assets and liabilities:		
Accounts receivable	(2,804)	3,136
Inventories	(7,606)	4,026
Prepaid expenses and other current assets	(737)	254
Accounts payable	4,918	(1,649)
Accrued payroll and employee benefits	1,030	401
Customer deposits	511	(126)
Other accrued liabilities	298	56
Income taxes payable	151	78
Net cash provided by operating activities	<u>3,296</u>	<u>13,121</u>
Cash flows from investing activities		
Purchase of property, plant and equipment	(551)	(507)
Proceeds from sale of property, plant and equipment, net of transaction costs	81	188
Purchase of marketable securities	(6,059)	(2,121)
Proceeds from sales of marketable securities	6,150	1,620
Increase of fixed deposits maturing over three months	(1,917)	(412)
Increase of fixed deposits maturing over twelve months	(427)	(1,424)
Net cash used in investing activities	<u>(2,723)</u>	<u>(2,656)</u>
Cash flows from financing activities		
Dividends paid	(2,864)	(2,386)
Exercise of stock options	-	64
Net cash used in financing activities	<u>(2,864)</u>	<u>(2,322)</u>
Net (decrease) increase in cash and cash equivalents	(2,291)	8,143
Cash and cash equivalents, beginning of year	<u>22,514</u>	<u>14,371</u>
Cash and cash equivalents, end of year	<u><u>20,223</u></u>	<u><u>22,514</u></u>

Supplementary disclosures of cashflow information:

Cash paid during the year for:

Interest

-

-

Income taxes

236

160
