

ELLIES

# The great U-turn

Continued boardroom bickering is destroying any hopes the company had for recovery

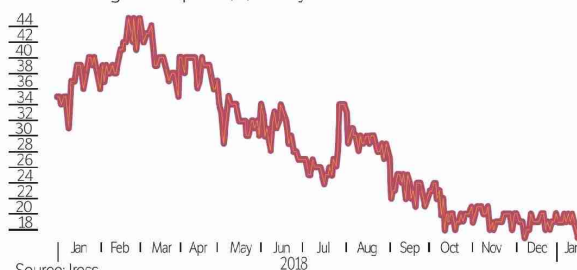
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Ian Russell:  
Novel response

## SIGNAL FAILURE

Ellies Holdings share price (R) – daily



● Ellies, the struggling manufacturer of satellite and electrical products, has made a surprising U-turn on its controversial decision to effectively ignore a stinging rebuke from more than half its shareholders.

The boardroom soap opera at Ellies follows a tumultuous few months since Adrian Bock quit as CEO in June 2018, which sparked a game of musical chairs at the company.

On December 14, Ellies asked shareholders to vote to approve the appointment of three new directors, including CEO Shaun Prithvirajh and Fikile Mkhize as interim chair.

Investors weren't impressed, and 53% voted against appointing them, as well as lead independent director Reshoketswe Ralebepa.

The response of the board, led by Ian Russell, might best be described as novel.

Russell relied on a little-known section of Ellies' memorandum of incorporation to overrule the wishes of most of his shareholders and confirm Mkhize and Ralebepa as directors. Prithvirajh remained as CEO but without a board position.

So the spurned shareholders launched legal action in the commercial court, also challenging Russell's mid-December appointment as chair.

On January 14, Russell was defiant, telling the FM he expected the court to uphold his interpretation, ignoring the shareholders.

"The view prevails at the moment

that they are directors and that the board is able to function," he said confidently, without realising how short-lived that moment would be.

On January 16, Ellies announced that Ralebepa had requested that she no longer be reflected as a director "due to the current dispute as to the validity of her reappointment".

Two days later came an even more dramatic announcement. Mkhize and Russell, who just days earlier had been readying for a fight, abruptly resigned from the board. No explanation was given, but simultaneously, the 53% bloc of shareholders announced the immediate withdrawal of their legal action.

It would seem a backroom deal had been done to avert the court clash.

The resignations might also have been prompted by the JSE's decision to look into what JSE general manager of issuer regulation Andre Visser described as a "very unusual set of facts".

The Companies & Intellectual Property Commission, which is tasked with ensuring adherence to the Companies Act, confirmed on Tuesday it has been monitoring and engaging with the company.

It means, as of this week, that Martin Kuscus and Andrew Hannington are the only two surviving Ellies directors. (And Hannington is an alternate director for Elliot Salkow, who is in hospital recovering from surgery.)

Asked by the FM to explain the U-turn, Prithvirajh directed all questions to the company secretary, Lindie Lankalebalelo, who then took the job on December 1.

Asked if he was still CEO, Prithvirajh said: "Yes, but I'm waiting to get an update on that."

Lankalebalelo confirmed Kuscus was interim chairman and was prioritising new board appointments.

She told the FM the interim results are expected to be released in the coming week.

"But certainly no later than January 31."

The company was meant to announce half-year results last week.

The board is now in the process of appointing a full-time chief financial officer.

Its selection will be put to shareholders.

It's a confusing drama with little precedent in SA. It has also been disastrous for the Ellies share price, which is now at just 17c – a far cry from 2013 when valuable Eskom contracts helped Ellies reach a high of 940c.

This boardroom churn also puts Ellies' turnaround strategy at risk. Unless that strategy bears fruit, Ellies could drift back to the precarious position it had been in since 2015.

Independent analyst Anthony Clark warns that the ongoing boardroom bickering is destroying any hopes Ellies had for recovering.

"The new CEO is good and has a coherent strategy, but it's questionable whether he will be able to implement it with all the boardroom shenanigans," he says.

Clark has followed the company since it was listed at 135c in 2006. Following the release of a solid set of financials in 2018, Clark said the share was attractive for those who had an appetite for risk.

Now Clark says that upbeat outlook is under threat. **x**

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