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Press Release

For Immediate Release

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ELLIES RETAINS POSITIVE OUTLOOK DESPITE CHALLENGING OPERATING ENVIRONMENT

Diversified business model and revenue streams together with greater cost and operational efficiencies should mitigate against further revenue pressure and return the Group to profitability.

Highlights

- Revenue decreased from R654,9 million to R 481,9 million
- EBITDA decreased from a profit of R46,8 million to a loss of R19,5 million
- Capital and Cash Reserves increased to R156.9 million
- Profit after tax decreased from a profit of R12,9 million to a loss of R20,2 million
- Total Comprehensive Profit decreased from income of R12,7 million to a loss of R20,2 million
- Earnings per share decreased from a profit per share of 2,56 cents to a loss of 3,06 cents
- Headline earnings per share decreased from a profit per share of 2.37 cents to a loss of 4,36 cents

Johannesburg - JSE listed Ellies Holdings Limited, a diversified manufacturer and distributor of electronic and alternative energy products, today announced its interim results for the six months ended 31 October 2021. Global and local supply chain challenges emanating from the Covid-19 pandemic, exacerbated by the July civil unrest and weak trading conditions, negatively impacted the operational performance resulting in the Group reporting an EBITDA loss for the six months of R19.5 million, attributable to a 38.2% decrease in gross profit when compared to the comparative reporting period.

However, while load shedding has continued to negatively impact the local production and retail sectors, Ellies benefited from the rolling blackouts experienced in the prior reporting period through increased demand for its alternative solar and inverter solutions. However, during the six months under review, electricity supply had stablised resulting in lower year-on-year demand for these products. Nevertheless, the pressure on South Africa's electricity grid is likely to continue into the near future and Ellies is well-poised to take advantage of the growing demand for more reliable energy sources, from both the commercial and household consumer market. Growing calls for South Africa to diversify its energy mix and incorporate more environmentally friendly energy sources also bodes well for the prospects of Ellies' solar and inverter product offering.

"We are acutely aware of the debilitating effect of load shedding on ordinary South Africans and their businesses. Small Medium and Microenterprises (SMMEs) are the life blood of any economy, and we are well positioned, through our range of alternative solar power and inverter solutions, to assist our struggling SMMEs and to benefit from the large-scale growth the sector is experiencing," said Ellies Group CEO,
Dr Shaun Prithivirajh.

The impact of a weakening operating environment

With local unemployment at record levels, reflective of a depressed economy and a low growth environment, lower demand for new DSTV installations was recorded from Multichoice, one of Ellies' long-standing partners. Added to this, the global microchip shortage impacted Multichoice's ability to deliver decoders for three months and meet the existing demand from Ellies, resulting in a further two-month delay to get the boxes ready for distribution to its retail partners.

"These installations still make up a meaningful percentage of Ellies' Group revenue and the trend has intensified through the heightened accessibility of streaming video entertainment. In response, Ellies continues to identify and pursue alternative revenue streams as well as grow its existing direct-to-customer and third channel segments," added Prithivirajh.

Positive indicators amid a subdued performance

According to Prithivirajh, the Group experienced a decline against most financial metrics in the first six months of the year, reporting a loss per share of 3,06 cents (H1 FY2021: earnings of 2,56 cents per share) and a headline loss per share of 4.36 cents (H1 FY2021: headline earnings per share of 2.37 cents).

"On a positive note, capital and reserves increased against the comparative period. This was largely attributable to the profitable second half of FY2021 which also included the creation of deferred tax assets. The Group's financial position remains strong, ending the half-year with capital and reserves of R156,9 million and net asset value per share was 19,5 cents (H1 FY2021: 20,8 cents),"

In addition, large-scale progress was made during the period in collecting overdue accounts, which positively impacted cash flow. Added to this, the Group had in recent years written off substantial quantities of inventory, whereas in the six months under review the inventory write-off was negligible. In this regard, the Group's decision to migrate to a third-party logistics and warehousing provider has borne fruit. We are confident that we will continue to see further efficiencies in our own supply chain through the remediation of our embedded ERP system," Prithivirajh said.

Post the reporting period, November 2021 saw the Group achieve its highest sales month in the past two years. This was largely attributable to the resumption of load shedding which is likely to continue for the foreseeable future.

Continued Investment in Technology and Governance

Historically, Ellies' lack of investment in technology and infrastructure hindered its operations. However, its remediation efforts have proven successful, and, in particular, the Group's systems integration with its logistics and warehousing partner, Value Logistics, and its investment in a business intelligence system has enabled Management to better analyse its data relating to the revenue cycle.

From an IT governance perspective, the Board has appointed a sub-committee chaired by an Independent Non-Executive Director. The committee consists of Management and an external IT consultant whose specialist skills will ensure that the Group's strategic IT vision is aligned to the business requirements.

Simplified Group Structure and efficiency gains

In February 2021, Ellies Industries, which previously comprised the Group's Manufacturing segment, was liquidated. This process has resulted in meaningful cost savings and efficiencies, and at the same time has not impacted Ellies' ability to supply products to its retail stores and installer partners as the Group has since been procuring its required components from partner suppliers locally and abroad.

In addition, various cost and operational efficiencies will continue to have a positive effect on the Group's performance in the second half of the year, as will an expected normalisation of global supply chain processes after the many challenges experienced in the last reporting period.

Finalisation of Milestone B-BBEE Transaction and Prospects

During the interim period, Ellies concluded its milestone B-BBEE transaction with the Imvula Education Empowerment Fund Trust. The transaction, valued at R18.5 million, has seen Ellies' empowerment credentials rise to a Level 3 B-BBEE status, and although the new certificate was only awarded in October, the Group has immediately seen an increase in opportunities to participate in business projects in both the public and private sector, which can only enhance future business development.

Management remains confident that in spite of the various challenges facing the Group's operating model, including the trend toward video-on-demand streaming services as well as a subdued economy and growing unemployment, the Group is well positioned, through its diversified offering, to benefit from the growing demand for alternative energy solutions.

One exciting prospect relates to the recently concluded agreement between Ellies Electronics and StreamView to exclusively distribute Nokia products in South Africa and various other African countries from February 2022. According to Prithivirajh, the agreement which came into effect in October 2021, gives Ellies access to a wide range of high-quality Nokia-branded smart products that Ellies will take to market through its extensive distribution network in South Africa. The agreement represents a landmark for StreamView as it enters the Southern African market, which is in line with its own growth strategy.

Ellies could also potentially benefit from the country's migration from analogue to digital terrestrial television (DTT). It is estimated that three million South African households are still expected to make the transition before the deadline, the Group remains well positioned with its large installer base.

"Over the past 24 months there has been a clear culture shift in the business and the Board, together with Management, have done a lot to align employees to the new focus. Going forward, we believe that the Ellies investor case remains sound. Our improved cash position, enhanced governance structures and a settled management team bode well and we look forward to working together with our new shareholders in Imvula to steer Ellies to sustainable profitability," Prithivirajh concluded.

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NOTES TO EDITORS

Ellies Holdings, founded in 1979 is an investment holding company for businesses involved in the manufacture, trading and distribution of a diverse range of products and services, inclusive of satellite television products and related accessories, electrical, alternative energy, solar power, signal distribution, residential and commercial LED lighting solutions, fibre connectivity, sound and audio-visual equipment distribution and installation.

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