

Interview with Selwyn Kahanovitz, CEO, Litha Healthcare Group Limited

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Mr Kahanovitz, Focus Reports came to South Africa in 2005 to produce a similar report on the South African pharmaceutical industry. Could you come back for us on the main milestones in the company's development since then?

In 2005 and 2006, we were in essence a vaccines company called Litha Healthcare Holdings incorporating The Biovac Institute, although we also had interest in the pharmaceutical business and the medical devices business at that time. Towards the end of 2009, we undertook a reverse listing with a listed company on the Alt. Exchange called Myriad Medical which specialized in medical devices in the private sector. The company purchased 51% of Litha Healthcare Holdings. In May 2010 we moved from the Alt. exchange to the main board of the JSE and changed the name to Litha Healthcare Group Limited.

We had quite a substantial, well transformed executive team and took over the running of the listed business. The deal was signed in 2009 and we were listed on the main board in May 2010. Less than a year later, the listed company bought the balance of the shares, so that by early 2011 which is the beginning of this year, the listed business owned 100% of the underlying Litha Healthcare Holdings business. In essence, what emerged was a diversified healthcare business with three divisions: medical devices, pharmaceuticals and vaccines.

Vaccines (Litha Biotech) is the division which incorporates a private public partnership (PPP) with the government, owning 47.5% through the Department of Health (DOH) and the Department of Science and Technology (DST) and our listed business has control over the private part of the Public Private Partnership.

Could you share with our readers the break-up of revenues between the three divisions?

Litha Healthcare Group Limited comprises three divisions, the largest division being the vaccine division, although it is also currently our lowest profit generator. The main focus is presently in logistics, that is to say importing and distributing. From a revenue perspective, the second largest division is our medical devices business, generating in excess of R360 million in turnover. Litha Medical represents 44 international medical device and equipment agencies.

The smallest division currently is the Pharma Division with R100 million turnover. Nevertheless, pharma is the most exciting part for us and remains the strategic focus of our business. We are aggressively adding scale to make it a significant part of the business going forward.

We have signed a number of exclusive/international distribution agreements to boost our medium and long term pipelines, but considering it takes three years plus to register a product with the MCC in South Africa, we are also keenly investigating some acquisitions as well. We are currently involved in a number of acquisition discussions and hope by early next year, to announce those which have been concluded. We are looking at medium sized acquisitions which will allow us to meet our strategic objectives for the Pharma Division, and make it our second biggest division after vaccines.

What has contributed to the main growth in your business this year, enabling you to project dividends in 2012?

Our Medical Division has been performing very well thanks to a right mix of products. Although the Pharma Division is smaller, it still generates reasonable profits.

As far as the vaccines business is concerned, we are currently investing in facilities so that we can be ready to manufacture our first vaccine in 2013.

Litha is known as a pioneer in South Africa with respect to PPP's. What are the complexities of working within a PPP environment and what are the main benefits?

The benefit of the PPP model is that where there is reluctance from private investors to enter into a space where they would develop a technology, a sector or skills set. The government would then partner with them to create an enabling environment, thereby allowing the private investor to

inject its skills and expertise whilst government achieves its objective. I guess, one could be considered a pioneer in an industry where there is a need for new technology, skills or where there are operational challenges and you are able create a sustainable business. In our case, the PPP model also allows the government to have a role in the strategic input and monitor what is happening but not to be operationally involved. It allows us to make business decisions, but with the government in the background monitoring and making sure that the strategic objectives are met.

In the Cabinet's ten point plan for health released in 2010, the MOH reaffirmed its commitment to fighting HIV and AIDS. South Africa has a very high HIV prevalence, 17% of the global burden. What can Litha do in the battle against HIV?

Presently HIV is not an area of focus in any of our divisions. However, if a vaccine is developed, we would like to be in a position whereby we have the necessary skills and technology to produce manufacture and to partner with whoever has developed the vaccine, assuming that it is compatible to be manufactured in our facilities.

The government strategically needs a facility in South Africa as well as for the region which can react if and when these vaccines are developed.

Do you also supply outside of South Africa?

Yes, but currently only on a small scale. We are preparing ourselves for the time when we are able to manufacture so that we already have a presence in the continent. We are looking to expand our export footprint significantly in the next 3-5 years.

Even though the EU is still South Africa's topmost regional export destination, the country became in December 2010, an official member of the BRICS. The challenge for the government is to show that it has a purposeful plan to engage with the BRICS countries. To what extent do you expect to work even more with companies based in the BRICS?

Litha is already partnering with companies in India in sourcing pharma products and we anticipate that more will be done in this area. The vaccines division (The Biovac Institute) is a member of the Developing Countries Vaccines Manufacturing Network (DCVMN). This network includes many companies in the BRICS community and we expect more to be done through this network.

Agreements recently signed with Indian generic drug manufacturer's Natco Pharma, NTC S.r.l , Gland Pharma Limited and Micro Labs will broaden your portfolio. What are the challenges that come with this expansion?

These agreements will allow us to balance our pharma portfolio with products in our pipeline and it also gives us the opportunity to go into new markets in SA and the region. There are a number of challenges when accessing new markets but cross synergies between the different divisions within the group, the transition into these markets will be supported where the other business units are strong in the market.

What is your vision for 2015?

We are making sure that by 2015 our vaccine facility is up and running, that we will have some product coming through, with strong growth into Africa.

Furthermore, at that point, I expect our Pharma Division to be much more developed in the local market and starting to develop its strong exporting position.

From 2015 onwards, we will not be South African centric, but African centric. It is a matter of monitoring the growth and ensuring we are optimising market opportunities for each of our divisions.

You founded the company back in the 1990s, now after almost twenty years, what keeps you motivated?

I am passionate about building healthcare businesses in order to make quality healthcare more accessible and affordable, pioneering new technologies and bringing the right opportunities for the business to grow. It is important for South Africa that we build businesses which will support skills development in the healthcare sector as well as supplying affordable healthcare to the private and public healthcare sectors.

What would be your final message to Pharmaceutical Executive's readers about Litha?

We have been operating in South Africa since the 1990's. We therefore understand this country and the continent. We are optimistic about opportunities in Africa, as you can see democracies are rising, as well as an important, affluent middle class. Africa is becoming more self-sufficient and there is an urgent need for access to quality and affordable healthcare. As Litha, we want to be part of this process, not only as manufacturers but as distributors of quality healthcare products. For us, it is really exciting to be part of a continent that is moving and growing, at a low pace but upper trend.

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