

## Morning Meeting Notes

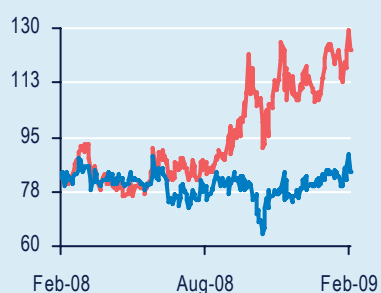
**Buy** **84p**

Potential upside Under Review **1.2%**

Target price Under Review **85p**

Market cap £137m  
 12m high / low 90p/64p  
 Average daily volume (000s) 352  
 Sector Food Producers  
 Index FTSE Small Cap  
 RIC / Bloomberg DVO.L / DVO LN  
 Implications for forecasts ▲

### Share price performance



	1m	3m	12m
Price	(0.6)	9.8	1.2
Rel. All Share	(0.6)	11.6	44.1
Rel. Sector (not shown)	8.1	13.8	24.8

Source: JCF Group

### Analyst

Nicola Mallard

+44 (0) 20 7597 5053

nicola.mallard@investec.co.uk

## Devro

### Pricing and currency help profits

**Devro had a strong close to the year assisted by the currency benefit of weaker sterling and has exceeded our 2008 (and 2009E) forecasts. For 2009E, the currency benefit should continue (on present rates) and we expect the group to once again offset expected inflation with higher pricing. Underlying volume growth looks solid and should help drive the business forward. We expect to upgrade our 2009E forecasts and target price.**

### Key Forecasts

### UNDER REVIEW - previous forecasts below

Year end: 31 December	2007	2008E	2009E
Turnover (£m)	156.3	180.9	187.9
PBT (normalised) (£m)	15.6	16.9	17.6
EPS (norm, continuing) - FD (p)	7.1	7.1	7.4
DPS (p)	4.45	4.45	4.45
PE (normalised) (x)	11.9	11.8	11.4
EV/EBITDA (x)	5.6	5.2	5.1
FCF yield (%)	4.3	6.9	2.3
Dividend yield (%)	5.3	5.3	5.3

Source: Company accounts/Investec Securities estimates

- Devro has reported full year profits ahead of our expectations with a pre-exceptional pre tax profit of £18.8m versus our forecast of £16.9m. The reported result was also ahead of our 2009E forecast. EPS on this number were 8.2p (versus forecast 7.2p) and the dividend was held at 4.45p. The 2007 numbers have been restated (although the pre-tax does not change) to reflect the transfer of pension finance income (£585k) out of operating profit and into the finance line as is now more common practice. There was a £3.5m exceptional which predominantly reflects the provision for the closure of Korenov.
- The sales line showed a very strong increase of 17%, although this included some 11% from currency, largely driven by translation of overseas results on weaker sterling. At the EBIT level, operating profit benefited by £2.4m from currency, all of which arose in 2H.
- The remaining 6% revenue growth was a mixture of price at +3.2% and volume +3%. This reflects the group's delivery of improved pricing during 2008 with the original target of 2.5% exceeded. In light of these pricing moves, the volume achieved was pleasing. The increased pricing was required, as indicated during 2008, to offset higher costs – the price increases generated an additional profit of £5m, but this was entirely offset by higher input costs (largely utilities and labour).
- The group continues to focus on the efficiencies of its plants and some headway was made in restoring profits in Scotland, although there is further to go. In the Czech Republic, the group has already announced the closure of the Korenov facility once further investment in new lines in Jilemnice has been completed.

### Investec acts as Broker to Devro

Readers in all geographies please refer to disclosures on page 3.

THIS DOCUMENT IS A MARKETING COMMUNICATION. It has not been prepared in accordance with the rules in the Conduct of Business Sourcebook designed to promote the independence of research and is also not subject to any prohibition on dealing ahead of the dissemination of research.

## Morning Meeting Notes

The savings from the closure of Korenov are anticipated to be in the region of £2m, accruing from 2010E.

- In 2009E, there are a number of factors which will influence forecasts. The first is currency as we expect a further translation benefit in 2009E to help both revenue and EBIT. We also have been warned to expect some cost inflation in raw materials (collagen due the shortage of cattle hides) and labour. Whilst energy costs look set to fall in 2H 2009E, there may be little benefit over 2008 given last year contained a favourable energy cost in the first half. The group will continue with its efforts on the pricing front and hopes to again show some success which should help to offset this cost pressure. Taking all of these factors into account we are forecasting an operating profit increase in 2009E of £2m.
- The group should see a healthy reduction in its “normal” interest charge as lower market rates feed through. However the pension finance line is expected swing from a positive £0.6m in 2008 to a charge of £1.4m in 2009E. This is likely to take our 2009E PBT number to £19.7m with EPS of 8.5p (previously £17.6m, EPS 7.4p).
- Given this higher forecast, we will also review our target price. For our previous target price, of 85p, we have assumed the stock trades on a sector average EV/EBITDA for 2009E (currently 5.2x). This would suggest a target price of c.100p, hence we retain our Buy recommendation.

## Morning Meeting Notes

### Definition of research ratings

	Expected 12m performance
Buy	Appreciation of 10% or more
Hold	Appreciation or depreciation of less than 10%
Sell	Depreciation of 10% or more

### UK stock ratings distribution

	Coverage universe		Investment banking clients	
	Count	% of total	Count	% of total
Buy	100	46%	50	50%
Hold	86	40%	9	10%
Sell	30	14%	1	3%

Source: Investec Securities

Investec Bank plc (Investec) has investment banking relationships with a number of companies covered by our Research department. In addition we may seek an investment banking relationship with companies referred to in this research. As a result investors should be aware that the firm may have a conflict of interest which could be considered to have the potential to affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Our policy on managing actual or potential conflicts of interest can be found at [www.investec.com/UnitedKingdom](http://www.investec.com/UnitedKingdom).

### Analyst certification

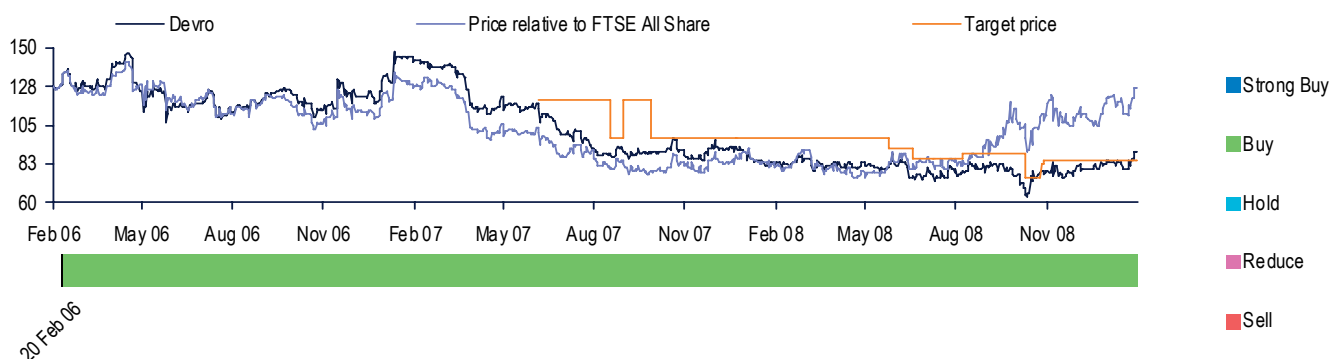
I/We Nicola Mallard, attest that the views expressed in this research report accurately reflect my/our personal views about the subject security and issuer. Furthermore, no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendation or views expressed in this research report.

### Third party research disclosures / Additional disclosures:

This report has been produced by a non-member affiliate of Investec Securities (US) LLC and is being distributed as third-party research by Investec Securities (US) LLC in the United States. This Report is not intended for use by or distribution to US corporations or businesses that do not meet the definition of a major institutional investor in the United States, or for use by or distribution to any individuals who are citizens or residents of the United States. Investec Securities (US) LLC accepts responsibility for the issuance of this report when distributed in the United States to entities who meet the definition of a US major institutional investor.

Please note: As of October 2006, Investec Securities moved to the Buy/Hold/Sell structure defined above from a Strong Buy/Buy/Hold/Reduce/Sell recommendation structure. In the old structure performance was measured relative to the FTSE All Share with: greater than 20% out performance for a Strong Buy; between 10% and 20% out performance for a Buy; less than 10% out/under performance for a Hold; between 10% and 20% under performance for a Reduce; and greater than 20% under performance for a Sell. Historic recommendations are unchanged in the following ratings plotter chart(s).

### Devro Ratings Plotter as at 17 Feb 09



Source: Investec Securities estimates, FactSet

## Morning Meeting Notes

### Disclaimer

This report has been issued or approved for issue by a member of the Investec Group of companies ("Investec Group") listed below and has been forwarded to you solely for your information and should not be considered as an offer or solicitation of an offer to sell, buy or subscribe to any securities or any derivative instrument or any other rights pertaining thereto ("financial instruments"). This report is intended for use by professional and business investors only. This report may not be reproduced without the consent of Investec Group or one of its affiliates ("Investec").

The information and opinions expressed in this report have been compiled from sources believed to be reliable, but, neither Investec, nor any of its directors, officers, or employees accepts liability from any loss arising from the use hereof or makes any representations as to its accuracy and completeness. Any opinions, forecasts or estimates herein constitute a judgement as at the date of this report. There can be no assurance that future results or events will be consistent with any such opinions, forecasts or estimates. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied is made regarding future performance. This information is subject to change without notice, its accuracy is not guaranteed, it may be incomplete or condensed and it may not contain all material information concerning the company and its subsidiaries. Investec is not agreeing to nor is it required to update the opinions, forecasts or estimates contained herein.

The value of any securities or financial instruments mentioned in this report can fall as well as rise. Foreign currency denominated securities and financial instruments are subject to fluctuations in exchange rates that may have a positive or adverse effect on the value, price or income of such securities or financial instruments. Certain transactions, including those involving futures, options and other derivative instruments, can give rise to substantial risk and are not suitable for all investors. This report does not have regard to the specific instrument objectives, financial situation and the particular needs of any specific person who may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities, financial instrument or investment strategies discussed in this report.

Investec (or its directors, officers or employees) may, to the extent permitted by law, own or have a position in the securities or financial instruments (including derivative instruments or any other rights pertaining thereto) of any company or related company referred to herein, and may add to or dispose of any such position or may make a market or act as a principal in any transaction in such securities or financial instruments. Directors of Investec may also be directors of any of the companies mentioned in this report. Investec may from time to time provide or solicit investment banking, underwriting or other financial services to, for or from any company referred to herein. Investec (or its directors, officers or employees) may, to the extent permitted by law, act upon or use the information or opinions presented herein, or research or analysis on which they are based prior to the material being published. Investec may have issued other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them.

The securities or financial instruments described herein may not have been registered under the US Securities Act of 1933, and may not be offered or sold in the United States of America or to US persons unless they have been registered under such Act, or except in compliance with an exemption from the registration requirements or such Act. US entities that are interested in trading securities listed in this report should contact a US registered broker dealer. Investec Securities (US) LLC accepts responsibility for the issuance of this report when distributed in the United States to US persons who meet the definition of a US major institutional investor. The distribution of this document in other jurisdictions may be prohibited by rules, regulations and/or laws of such jurisdiction. Any failure to comply with such restrictions may constitute a violation of United States securities laws or the laws of any such other jurisdiction.

To our readers in the United Kingdom, this report has been issued by Investec Bank plc, a firm authorised and regulated by the Financial Services Authority and a member of the London Stock Exchange. This report is not for distribution to retail clients.

To our readers in the Republic of Ireland, this report has been issued or approved for issue in the Republic of Ireland by either Investec Bank plc (Irish branch), a firm authorised by the FSA and regulated for investment business by the Financial Regulator or Investec Ireland Limited which is authorised and regulated by the Financial Regulator.

This report is disseminated in South Africa by Investec Securities Limited, which is regulated by the Financial Services Board and the Johannesburg Stock Exchange, and in Switzerland by Investec Bank (Switzerland) AG.

This report is not intended for use by, or distribution to, US corporations that do not meet the definition of a major US institutional investor in the United States or for use by any citizen or resident of the United States.

© 2009

This publication is confidential for the information of the addressee only and may not be reproduced in whole or in part, copies circulated, or disclosed to another party, without the prior written consent of Investec Group or one of its subsidiaries or affiliates. Securities referred to in this research report may not be eligible for sale in those jurisdictions where a member of the Investec Group is not authorised or permitted by local law to do so. In particular, the Investec Group does not allow the redistribution of this report to non-professional investors and cannot be held responsible in any way for third parties who effect such redistribution.

#### Investec Securities

A division of Investec Bank plc  
Authorised and regulated by the FSA  
Member of the London Stock Exchange  
Registered No. 489604 England

#### Registered Office:

**2 Gresham Street London EC2V 7QP**  
**Telephone: +44 20 7597 4000**  
**Fax: +44 20 7597 4070**

#### Investec Securities Ltd (Johannesburg)

PO Box 78055  
Sandton 2146  
South Africa  
Telephone: +27 11 286 7000  
Fax: +27 11 286 9923

#### Investec Securities Ltd (Cape Town)

PO Box 4059  
Cape Town 8000  
South Africa  
Telephone: +27 21 416 3000  
Fax: +27 21 416 3598

#### Investec (US) LLC (New York)

15th Floor, 666 Fifth Avenue  
New York, NY 10103  
USA  
Telephone: +1 212 259 5600  
Fax: +1 917 206 5102