

Morning Meeting Notes

Buy **77p**

Potential upside **11%**

Target price **85p**

Market cap £125m
 12m high / low 96p/64p
 Average daily volume (000s) 278
 Sector Food Producers
 Index FTSE Small Cap
 RIC / Bloomberg DVO.L / DVO LN
 Implications for forecasts ▶

Share price performance



	1m	3m	12m
Price	(4.1)	(3.2)	(15.9)
Rel. All Share	1.1	28.1	31.2
Rel. Sector (not shown)	(6.9)	5.6	9.7

Source: JCF Group

Devro

Progress continues in 2H

Devro has released its Q3 IMS which reads positively. The board states it is confident full year performance will meet its expectations. Sales generally continue to show good growth and the group is still showing a positive trend in pricing versus last year. Costs are in line with expectations. We leave full year forecasts unchanged, but increase our target price to 85p in line with a general improvement in sector ratings.

Key Forecasts

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)	10.8	10.7	10.3
EV/EBITDA (x)	5.2	4.8	4.7
FCF yield (%)	4.7	7.5	2.5
Dividend yield (%)	5.8	5.8	5.8

Source: Company accounts/Investec Securities estimates

- Devro has issued a Q3 IMS which reads positively. Since the half year, the group has continued to demonstrate an improved performance and as a result the management remains confident the FY result will meet its expectations.
- The demand for edible collagen remains strong – we are forecasting volume growth for the full year of 2.7%, which is in line with the improvement reported in 1H. All regions are contributing to this, but the stronger performers remain Europe and Asia Pacific. Within Europe, the UK is growing as are the E European markets. Similarly in Asia Pacific, the Chinese market remains a driving force. There are several factors supporting developing market growth (other than economic expansion), one of which is the shortage of gut worldwide which has resulted in significant increase in gut prices and an acceleration of the switch into collagen.
- The progress on pushing through higher prices has also continued into 2H. In 1H, the group reported a 2.2% uplift in prices; for the full year, we expect the group to do slightly better than this at 2.6%. Revenues will be further assisted by currency movements. The strength of the US dollar and Euro will help on revenue translation, partly offset by weakness in the Australian dollar. Overall, we expect a 16% increase in revenues to around £180m.
- In terms of costs the group is performing broadly to plan. Energy prices are starting to ease, although this will only really feed through in 2009 once existing contracts expire. The group has also been successful in securing hides through to 2009 which, given changes in the leather trade, is proving to be an increasingly important competitive advantage.

Analyst

Nicola Mallard

+44 (0) 20 7597 5053

nicola.mallard@investec.co.uk

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

- Given the encouraging demand profile, the group is also considering future capex plans. There is already an intention to increase capacity at Jilemnice in the Czech Republic. The cash generation is good and any increase in capex spend plans can be comfortably accommodated within current banking facilities. We expect year end net debt to be around £22-23m.
- We leave our full year forecasts unchanged at £16.9m for 2008, EPS 7.1p, but increase our target price to 85p from 74p to reflect higher average ratings in the sector. Our target price now assumes the group trades on an EV/EBITDA of 5.3x for Dec 09, a small premium to the sector average rather than the current discount.

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	111	52%	26	23%
Hold	79	37%	11	14%
Sell	22	10%	2	9%

Source: Investec Securities

Investec Bank (UK) Ltd (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.

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.

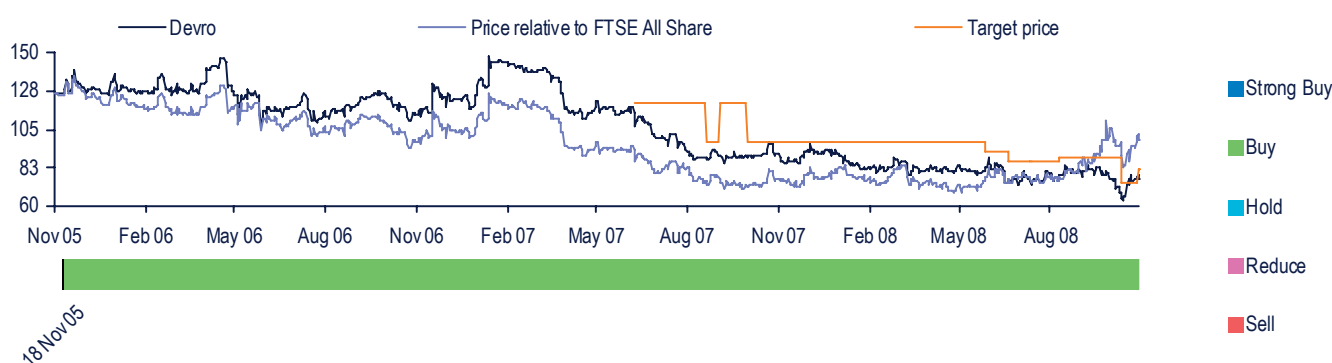
Third party research disclosures / Additional disclosures:

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.

Investec holds/has held more than 1% of common equity securities in Devro in the past 90 days. Investec has received compensation from Devro for investment banking services within the past 12 months.

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 Nov 08



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 (UK) Limited, 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 (UK) Limited (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.

© 2008

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 (UK) Limited
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)

9th Floor, 330 Madison Avenue
New York
NY 10017
USA
Telephone: +1 212 898 7440
Fax: +1 212 898 6293