THE TAKEOVER PANEL

Profit Forecasts

The Panel wishes to bring to the attention of companies and their advisers the possible implications under the City Code of a provision in the Regulations governing the restraint of dividends as a result of which some companies may have the freedom to increase dividends payable on ordinary share capital by an amount that exceeds the normally permitted increase of 10% per annum. With Treasury consent, a company may increase its dividends to the extent that this does not result in the level of cover for the dividend being reduced below the highest level achieved in the base period defined in the Regulations.

It follows that if the Board of a company states, at some point before the announcement of results for a given financial period, that it expects, under this provision, to recommend a dividend higher than would normally be permitted, it is forecasting that the level of dividend cover for that financial period will be not less than the highest level of cover achieved over the base period. Whilst dividend forecasts are not generally regarded as profit forecasts Practice Note No.3 of the City Code states that they will be regarded as profit forecasts if accompanied by an estimate as to dividend cover. Such a forecast might be required to be reported on in accordance with the procedure set out in Rule 16 should the company subsequently become involved in a take-over or merger transaction.

The Panel takes the view that companies and their advisers should be aware that, in making such statements, they may be committing themselves to reporting on a profit forecast at a later date. In cases of doubt as to whether such a statement could be construed as a forecast in accordance with these principles, it is suggested that the Panel is consulted in advance.

7th February 1979.