

KPMG Financial Performance Index (KPMG FPI)

Formerly known as Distance to Default (D2D)

Volume 11

An indicator of corporate health for companies across
the Australian Stock Exchange (ASX)

Foreword

We are pleased to share with you the eleventh edition of our bi-annual KPMG Financial Performance Index (FPI) publication, previously known as Distance to Default (D2D). KPMG FPI replaces our previous D2D model and is based on an improved probability model to benchmark the financial health of ASX companies. We provide our insights into the changing state of corporate health across all ASX sectors, following the end of the reporting season for the six months to December 2021. We have also conducted our KPMG FPI analysis as of March 2022 and we observed a decrease in the average KPMG FPI (i.e. a decline in financial corporate health) between December 2021 and March 2022 from 85.38 to 82.33.

Unsurprisingly, our analysis indicates that the Energy and Aerospace & Defence sectors are the only two sectors that have not experienced a drop in their KPMG FPI. We are also seeing the highest decline in KPMG FPI in Life Sciences Tools and Services, Media and Entertainment and Technology and Telecommunications which we highlight below.

Key highlights

- Following the sharp fall in financial performance in early 2020 due to the pandemic, we observed markets recovered strongly over the next 18 months.
- However, in our most recent analysis to March 2022, we are starting to see early indicators of distress in the market.
- This has been caused by:
 - Interest and inflationary pressures;
 - Uncertainty caused by Ukraine Russia war;
 - Soaring fuel prices; and
 - Ongoing supply chain disruptions.

Sector movers

- The latest FPI scores indicate the most resilient sectors have been Energy and Aerospace & Defence. The only two sectors that did not experience a decline in their scores.
- As we enter a new COVID normal era, some of the sectors that have seen the highest increase in scores during the pandemic have started to show signs of normalisation. This includes Life Sciences Tools & Services, Media & Entertainment and Technology & Telecommunications, all recording a drop of more than 5 percent this quarter.
- The market cap of Zombie companies have dropped from \$976.9m to \$845.6m from December 2021 to March 2022.

What we expect to see in the coming months:

- There are a number of factors that will drive how the next few months play out:
 - Impact of change in Federal Government;
 - Impact of inflation and pressures around further interest rate hikes both locally and globally;
 - Unfolding of the uncertainty around economic and geopolitical climate globally.

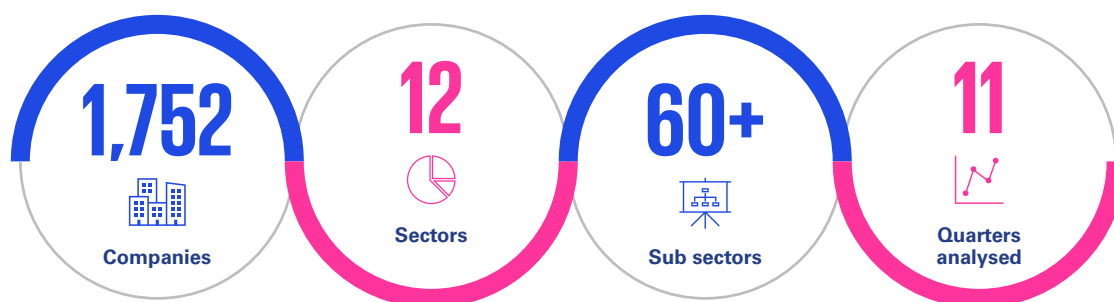
About KPMG FPI

The KPMG FPI is a metric used to measure a company's financial health by its 'probability to default'. The analysis has been prepared using John Y. Campbell, Jens Hilscher, and Jan Szilagyi's probability to default formula which takes into account financial information and market data. The KPMG FPI score ranges from 1 - 100. The lower the score, the more likely a company is to default. In contrast, the higher the score, the less likely it is to default. In this analysis, released every six months, we analyse the KPMG FPI score movements of ASX-listed companies (following the reporting season of full year and half year results) to draw insights into corporate health across the Australian Economy.

KPMG FPI combines both market and financial information to determine a company's relative financial distress levels. KPMG Restructuring Services believes that combining the two types of information detects deteriorating corporate health more effectively than either source alone. The eleventh edition of our bi-annual KPMG FPI publication focuses on the changing state of corporate health across all ASX sectors for the six months to December 2021.

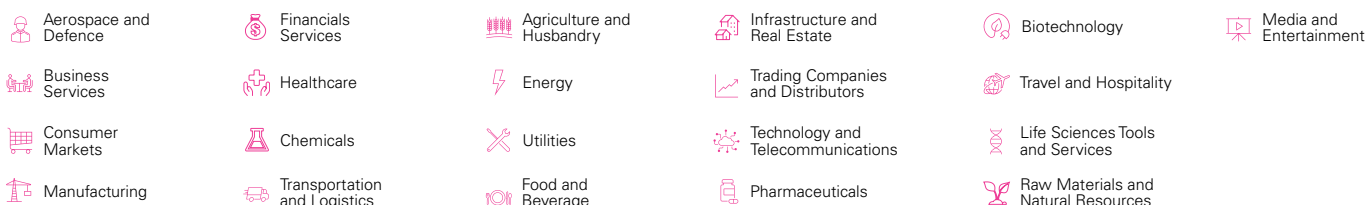
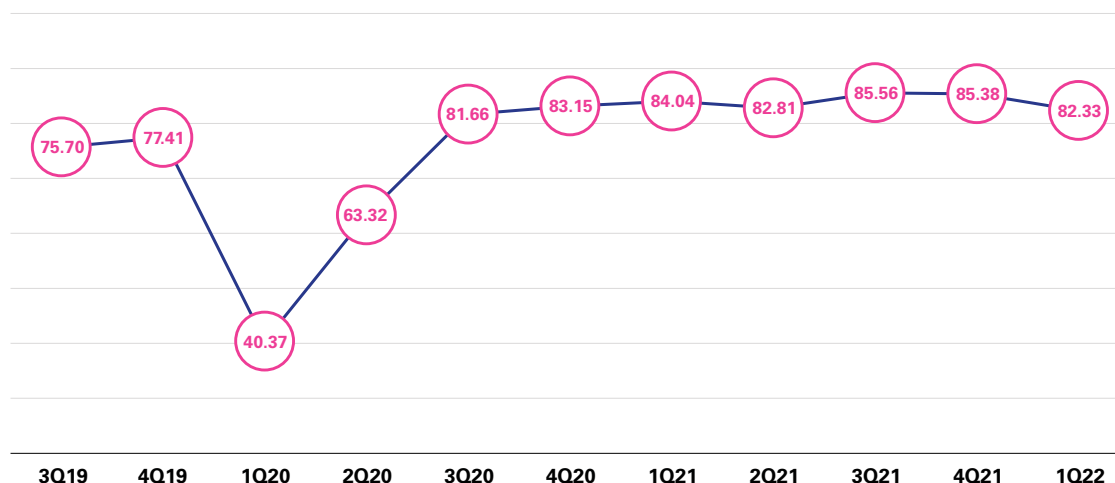
KPMG Financial Performance Index (KPMG FPI)

analysed across...



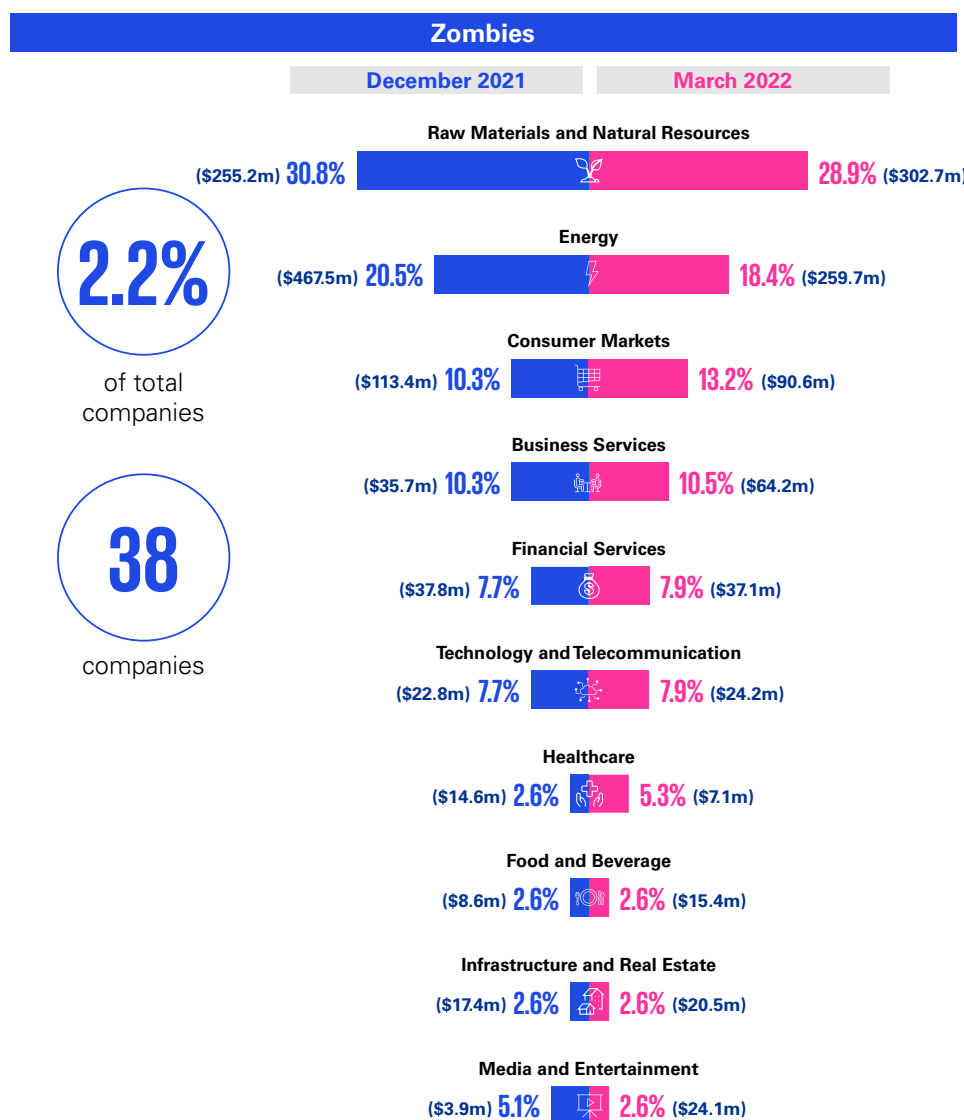
Movements of KPMG FPI score across the ASX

KPMG FPI score of ASX listed companies decreased from 85.38 in December 2021 to 82.33 in March 2022.



KPMG Financial Performance Index (KPMG FPI).... cont'd

analysed across...



Note: (1) % share of zombies across sectors

(2) Cumulative market capitalisation (AU\$ million) of zombies across sectors

Aerospace and Defence

Financials Services

Agriculture and Husbandry

Infrastructure and Real Estate

Biotechnology

Media and Entertainment

Business Services

Healthcare

Energy

Trading Companies and Distributors

Travel and Hospitality

Consumer Markets

Chemicals

Utilities

Technology and Telecommunications

Life Sciences Tools and Services

Manufacturing

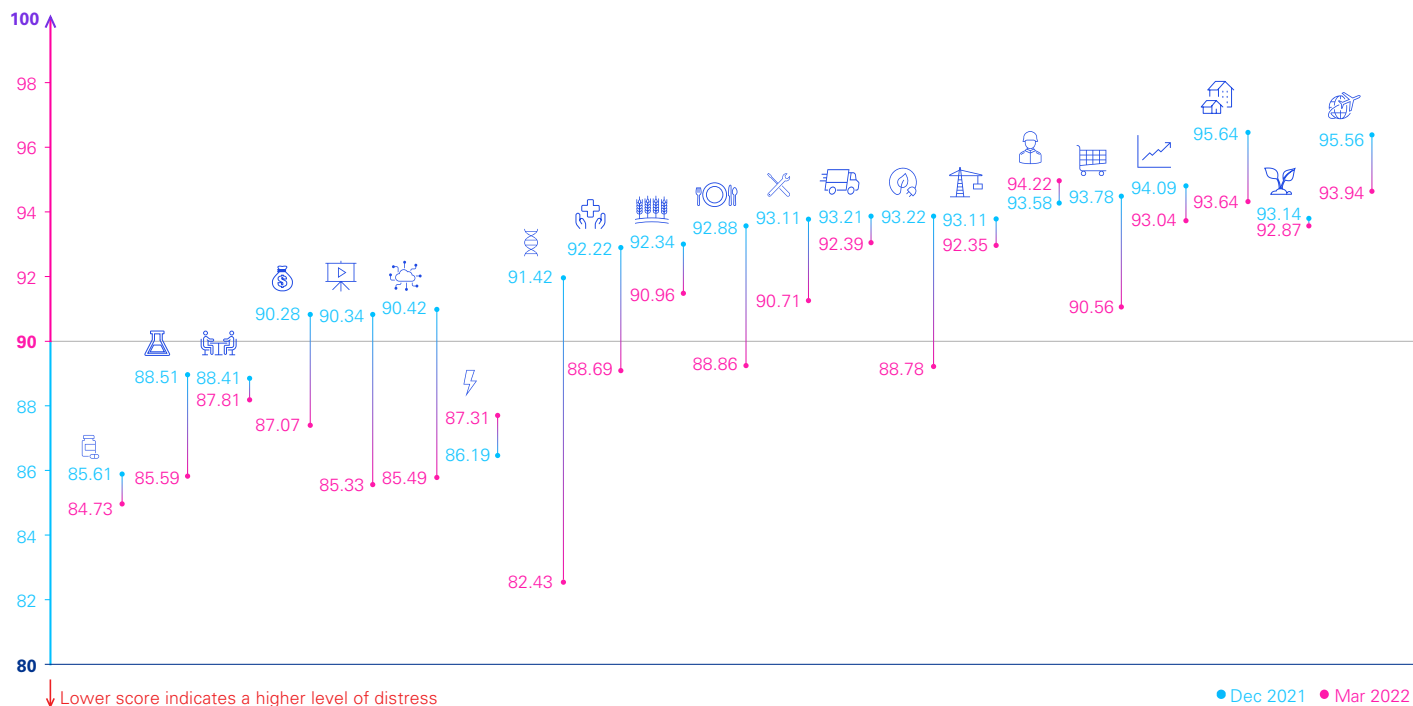
Transportation and Logistics

Food and Beverage

Pharmaceuticals

Raw Materials and Natural Resources

KPMG FPI movement by sector

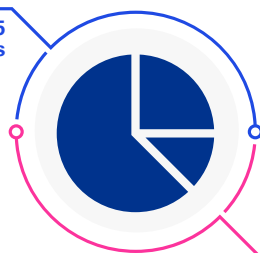


Key movements in KPMG FPI score by sector

Dec 2021 to Mar 2022

Energy	1.3% ↑	(87.31)
Aerospace and Defence	0.7% ↑	(94.22)
Raw Materials and Natural Resources	-0.3% ↓	(92.87)
Business Services	-0.7% ↓	(87.81)
Manufacturing	-0.8% ↓	(92.35)

Top 5 movers



Bottom 5 movers

Dec 2021 to Mar 2022

Food and Beverage	-4.3% ↓	(88.86)
Biotechnology	-4.8% ↓	(88.78)
Technology and Telecommunication	-5.4% ↓	(85.49)
Media and Entertainment	-5.5% ↓	(85.33)
Life Sciences Tools and Services	-9.8% ↓	(82.43)

Aerospace and Defence	Financials Services	Agriculture and Husbandry	Infrastructure and Real Estate	Biotechnology	Media and Entertainment
Business Services	Healthcare	Energy	Trading Companies and Distributors	Travel and Hospitality	
Consumer Markets	Chemicals	Utilities	Technology and Telecommunications	Life Sciences Tools and Services	
Manufacturing	Transportation and Logistics	Food and Beverage	Pharmaceuticals	Raw Materials and Natural Resources	

Contact us

National



James Stewart

National Head of Restructuring
E: jstewart13@kpmg.com.au
P: +61 3 8667 5728

Brisbane



Will Colwell

QLD Restructuring Partner
E: wcolwell@kpmg.com.au
P: +61 7 3237 5458

Adelaide



David Kidman

SA Restructuring Partner
E: davidkidman@kpmg.com.au
P: +61 8 8236 7205

Sydney



Peter Gothard

NSW Restructuring Partner
E: petergothard@kpmg.com.au
P: +61 2 9458 1562

Perth



Hayden White

WA Restructuring Partner
E: haydenwhite@kpmg.com.au
P: +61 8 9263 4887

Acknowledgements



Julian Shii

Associate Director
Deals Tax Legal



Ryan Eagle

NSW Restructuring Partner
E: ryaneagle@kpmg.com.au
P: +61 2 9458 1559



Melbourne

Brendan Richards

VIC Restructuring Partner
E: bjrichards@kpmg.com.au
P: +61 3 9288 6484



Gayle Dickerson

NSW Restructuring Partner
E: gdickerson@kpmg.com.au
P: +61 2 9295 3982



David Hardy

VIC Restructuring Partner
E: dahardy@kpmg.com.au
P: +61 3 9288 6928

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