



KPMG Financial Performance Index (KPMG FPI)

Volume 12

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



Foreword

Welcome to the twelfth edition of our bi-annual KPMG Financial Performance Index (FPI) publication. We provide our insights into the changing state of corporate health across the ASX, for the six months to September 2022. We observed a decrease in the average KPMG FPI (i.e. a decrease in financial corporate health) between March 2022 and September 2022 from 81.51 to 77.03 (i.e. 5.5 percent).

Out of the 21 sectors analysed, only five sectors experienced an increase in their KPMG FPI. Certain sectors like Life Sciences that had previously seen a decrease in their KPMG FPI are now seeing a bounce back, conversely, Aerospace & Defence have experienced a decline from their prior increase.

Key highlights

- The KPMG FPI has decreased in the six months from March 2022 to September 2022 caused by:
 - Uncertainty around the outlook for the global economy
 - Record inflation
 - Interest rate hikes
 - Cost of living concerns
 - Companies weaning off government COVID-19 stimulus
- With some signs that supply chain disruptions are starting to ease, we have observed a slight recovery in the KPMG FPI in recent months

Sector movers

- Only five sectors experienced an increase in their KPMG FPI score from March 2022 to September 2022
- The bottom two movers have been Aerospace & Defence and Healthcare. These two sectors have been affected by the impact of the current economic climate on government spend
- The Technology and Telecommunication sector has been in the bottom five KPMG FPI sectors for two consecutive semi-annual periods
- The number of Zombie companies has also close to doubled in the latest quarter, indicating early signs of distress in the market

What we expect to see in the coming months:

- Pressure on companies as inflation remains high, interest rates continue to increase and spending in the economy slows
- Employment capacity restraints as the unemployment rate and underemployment rates continue to remain low
- Cautious investment sentiment given valuation uncertainty

About KPMG FPI

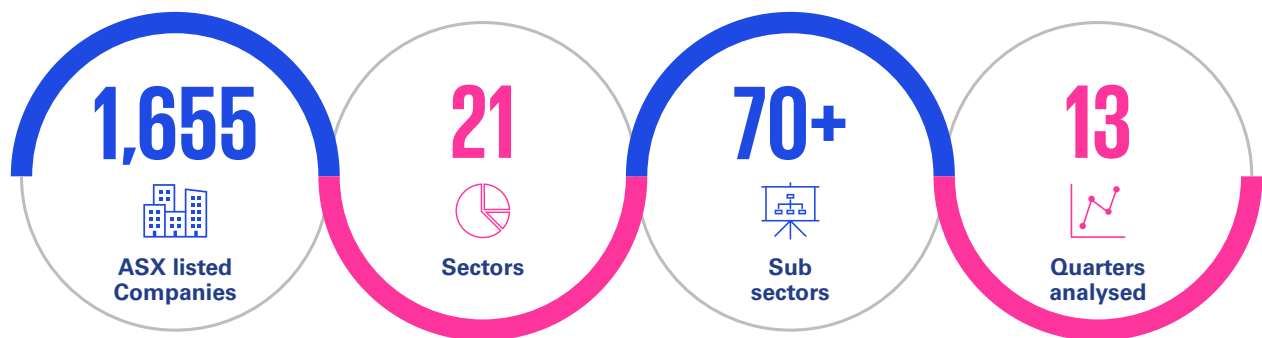
The KPMG FPI is a metric used to measure a company's financial health. It draws from the Logit Probability to Financial Default model (developed by John Campbell, Jens Hilscher and Jan Szilagyi), which is based on eight explanatory variables encompassing financial and market variables. The score extracts raw data from S&P Capital IQ database and ranges from 0 - 100. The lower the score, the lower the financial health. In contrast, a higher score reflects a stronger financial health. As the KPMG FPI is a logit model, a drop below the average can very quickly lead to an index score of 0.

In this analysis, released every six months, we analyse the KPMG FPI score movements of ASX-listed companies to draw insights into corporate health across the Australian Economy. The twelfth edition of our bi-annual KPMG FPI publication focuses on the changing state across all sectors for the six months to September 2022.

The global version of this tool is also available online for public use. For further information, please visit [here](#).

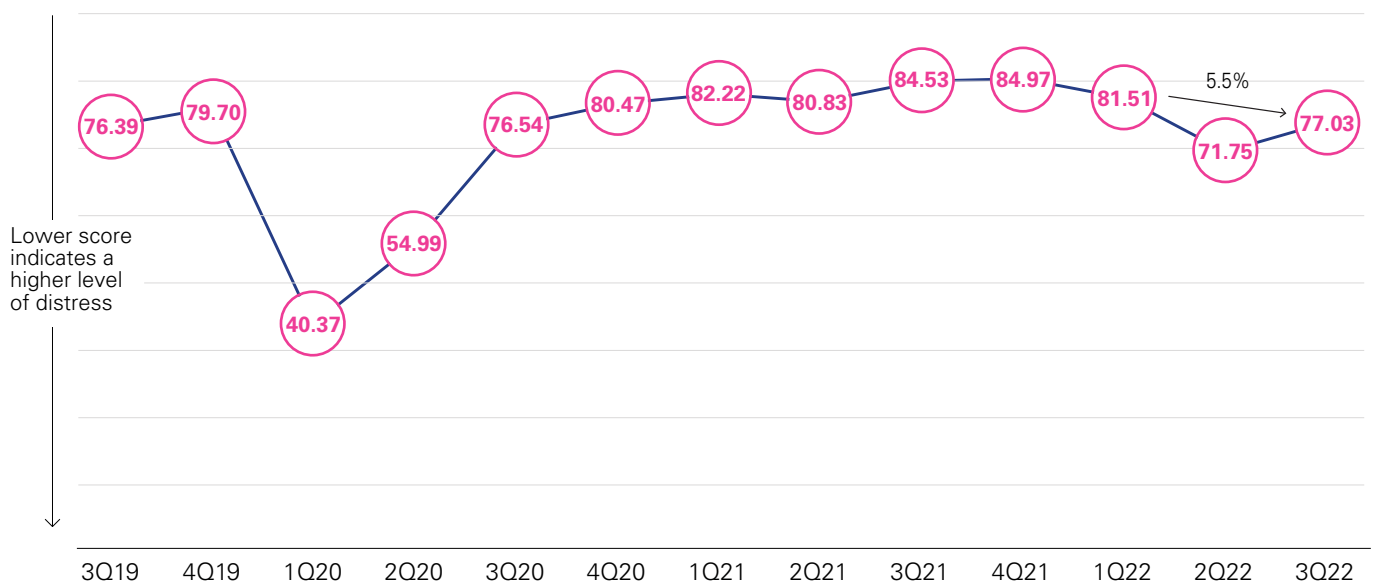
KPMG Financial Performance Index (KPMG FPI)

analysed across...



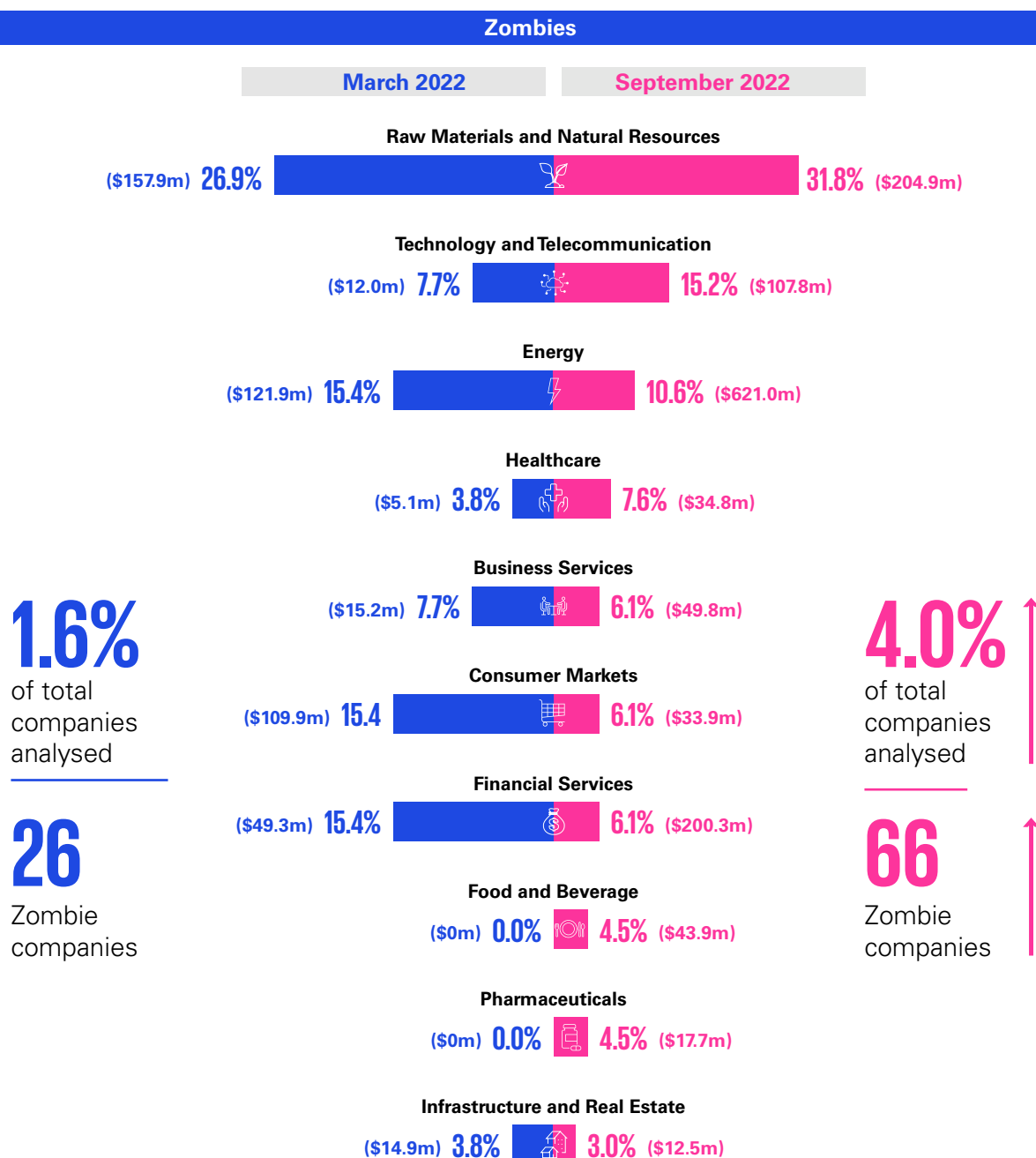
Movements of KPMG FPI score across the ASX

KPMG FPI score of ASX listed companies decreased from 81.51 in March 2022 to 77.03 in September 2022.



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

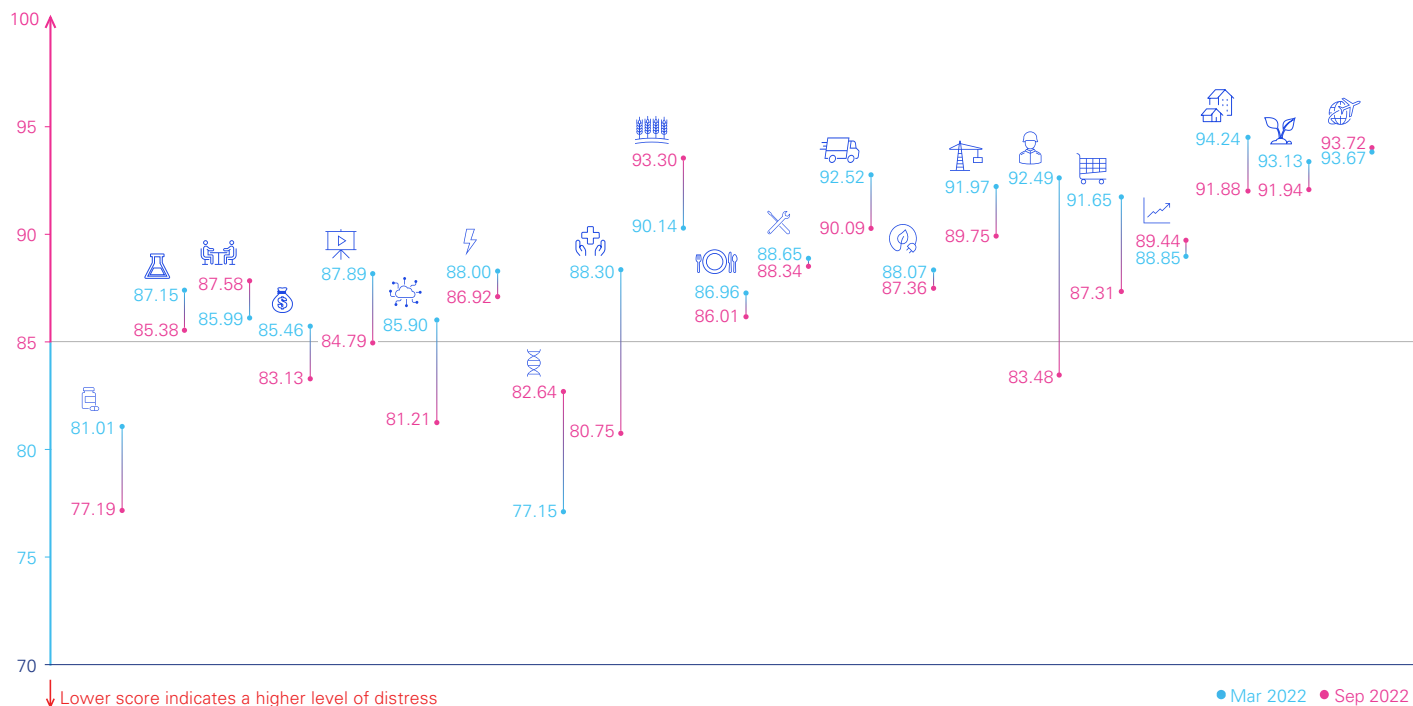
Zombies are companies scoring 0 on the KPMG FPI for three or more consecutive quarters. These companies may be experiencing distress or working through restructuring strategies.



Note: (1) March 2022: (AU\$ million) Cumulative market capitalisation of zombies, % share of zombies.

(2) September 2022: % share of zombies, (AU\$ million) Cumulative market capitalisation of zombies.

KPMG FPI movement by sector

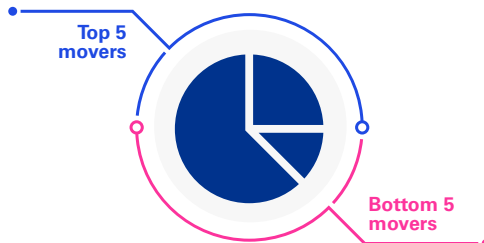


Key movements in KPMG FPI score by sector

Mar 2022 to Sep 2022

Life Sciences Tools and Services	7.1% ↑ (82.64)
Agriculture and Husbandry	3.5% ↑ (93.30)
Business Services	1.8% ↑ (87.58)
Trading Companies and Distributors	0.7% ↑ (89.44)
Travel and Hospitality	0.1% ↑ (93.72)

Top 5 movers



Bottom 5 movers

Mar 2022 to Sep 2022

Pharmaceuticals	-4.7% ↓ (77.19)
Consumer Markets	-4.7% ↓ (87.31)
Technology and Telecommunication	-5.5% ↓ (81.21)
Healthcare	-8.6% ↓ (80.75)
Aerospace & Defence	-9.7% ↓ (83.48)

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