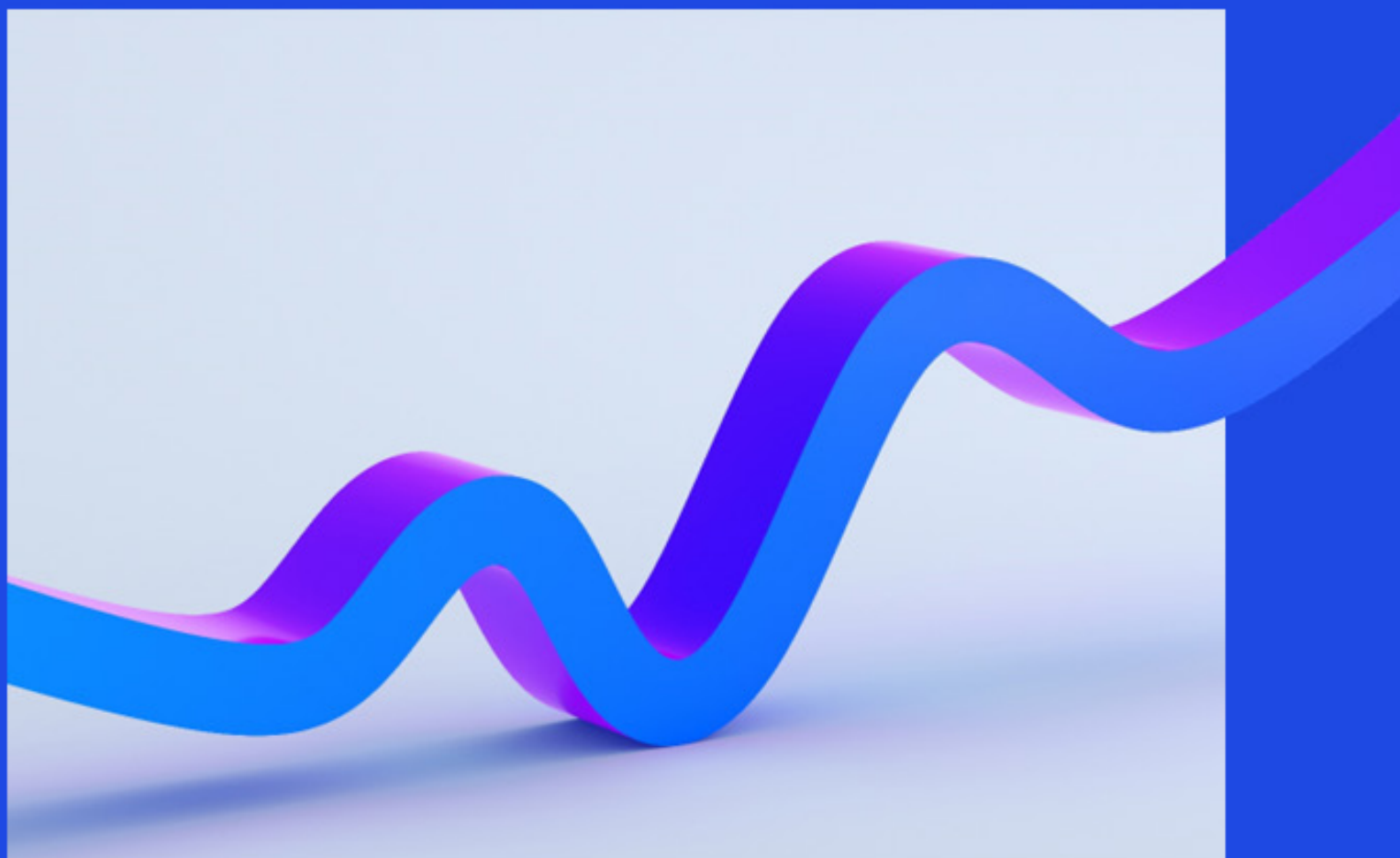




KPMG Financial Performance Index (KPMG FPI)

Volume Q1 2023 Europe/Netherlands

An indicator of corporate health for companies across Europe and the Dutch economy



Foreword

We are pleased to share with you the Q1 2023 edition of our quarterly KPMG Financial Performance Index (FPI) publication. We provide our insights into the changing state of corporate health across all European markets and sectors, following the end of the reporting season for the three months to March 2023. We further more set out the KPMG FPI score for 12 key industries of the Dutch economy as an indication of its health. KPMG FPI data is refreshed on a quarterly basis. For more information, visit the [KPMG FPI page](#).

Between **December 2022 and March 2023** we observed a slight increase in the average KPMG FPI (i.e. an increase in financial corporate health) from 89.10 to 89.58. Out of the 22 sectors analysed, **5 sectors experienced a decrease in their KPMG FPI** during the three months ended March 2023. Certain sectors like Energy that had previously seen an increase in their KPMG FPI are now seeing a downward reversion while on the other end, Pharmaceuticals also experienced an upward movement from their prior decrease.

Key highlights

- Following the hit on European corporate FPI due to Covid in Q1 2020 (FPI 80 score), the index rebounded strongly to a level of around 92 in the first three quarters of 2021;
- As of Q4 2021 the FPI has returned to its pre-Covid level of around 89, despite the materialization of some major macro developments, such as the war in Ukraine, record high inflation (largely driven by high oil and gas prices in 2022) and Central Bank's response by increasing interest rates;
- Though the overall impact on FPI is thus limited so far, specific sectors have been impacted by these developments.

Sector movers

- Based on the index, the sectors with the lowest FPI scores (88 – 90 range scores) per Q1 2023 are Healthcare, Pharmaceuticals and Media & Entertainment, as also generally reflected in the overview of subsector outperformers (slide 5) as well as the Zombies⁽¹⁾ list (slide 6).
- An explanation for the relatively low scores of Healthcare and Pharmaceuticals sectors are costs (Healthcare) and lower demand (Pharmaceuticals) due to respectively following Covid.
- In Q1 2023, the highest performing sectors are Transportation & Logistics, Agriculture & Husbandry (second largest relative increase), and Trading Companies & Distributors (scores of 96 – 97).

Dutch economy

- The Netherlands is an open economy, benefitting from stable trading conditions and which rebounded strongly from Covid.
- The Q1 2023 sector outperformers (see Sector movers), are important sectors for the Dutch economy, next to for instance Business Services, Manufacturing and Financial Services which also demonstrated stable scores in Q1.
- However, in Q1 2023 the Dutch economy showed a negative growth of 0.7 percent. This has mainly been caused by lower export figures and demonstrates that the (increasing) interest rate environment, still relatively high inflation and geopolitical tensions affect trading conditions.

Future outlook

- The key factors driving how the next quarters will play out include:
 - Impact from geopolitical events
 - Reduced inflation owing to drop in energy prices, but levels are still not at pre-Covid levels
 - Response from Central Banks to inflation levels⁽²⁾ on the one hand and possible cooling off of Global and European economy on the other. On 25 May 2023, Germany, the largest trading partner of Netherlands, reported 2 consecutive quarters of contraction (recession)
- These and other developments are expected to lead to downward pressure on FPI sector scores and on the Dutch economy in general.

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 0 - 100. The lower the KPMG FPI 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 three months, we analyse the KPMG FPI score movements of publicly listed companies in Europe (following the reporting season of full year and half year results) to draw insights into corporate health across the European economy as well as the Dutch economy.

KPMG FPI combines both market and financial information to determine a company's relative financial distress levels. KPMG believes that combining the two types of information detects deteriorating corporate health more effectively than either source alone.

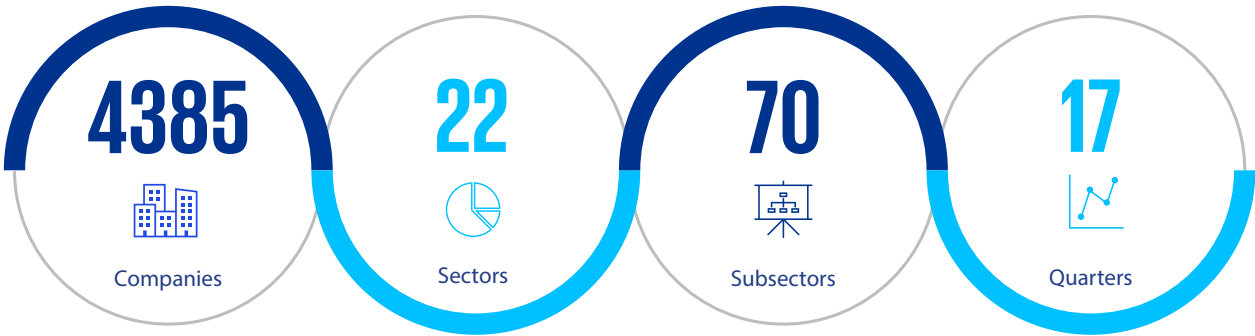
Note:

(1) Zombies are companies close to default (scoring 0 on the KPMG FPI) for three or more consecutive quarters.

(2) Rise in interest rates to bring inflation down to its target of 2 percent.

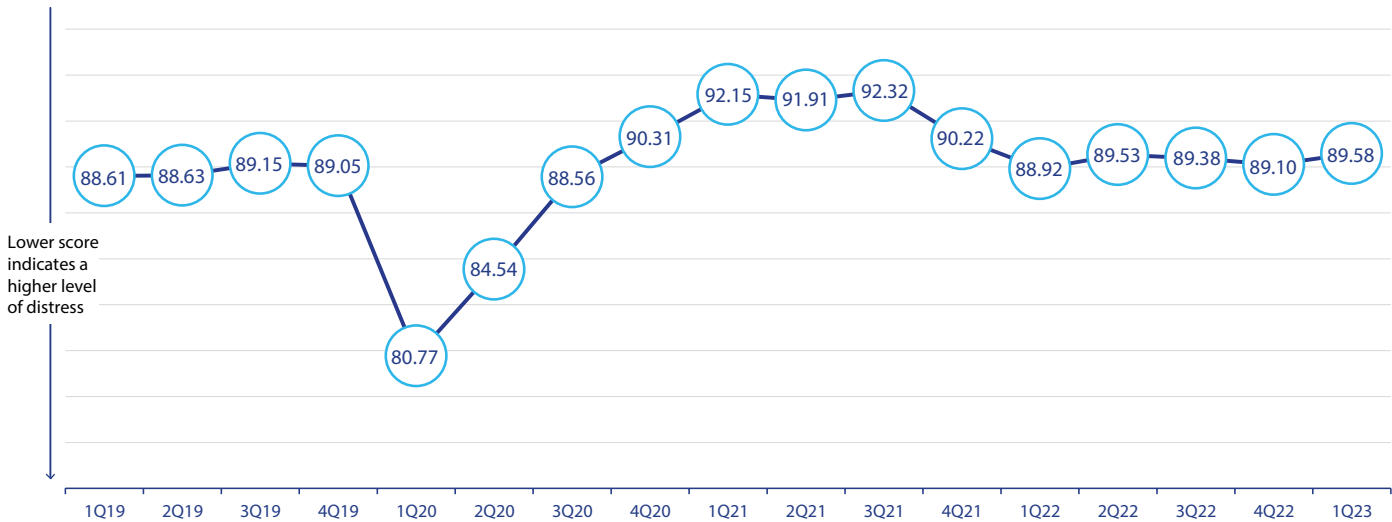
Movements of KPMG FPI score across Europe

analysed across...



Movements of KPMG FPI score across Europe

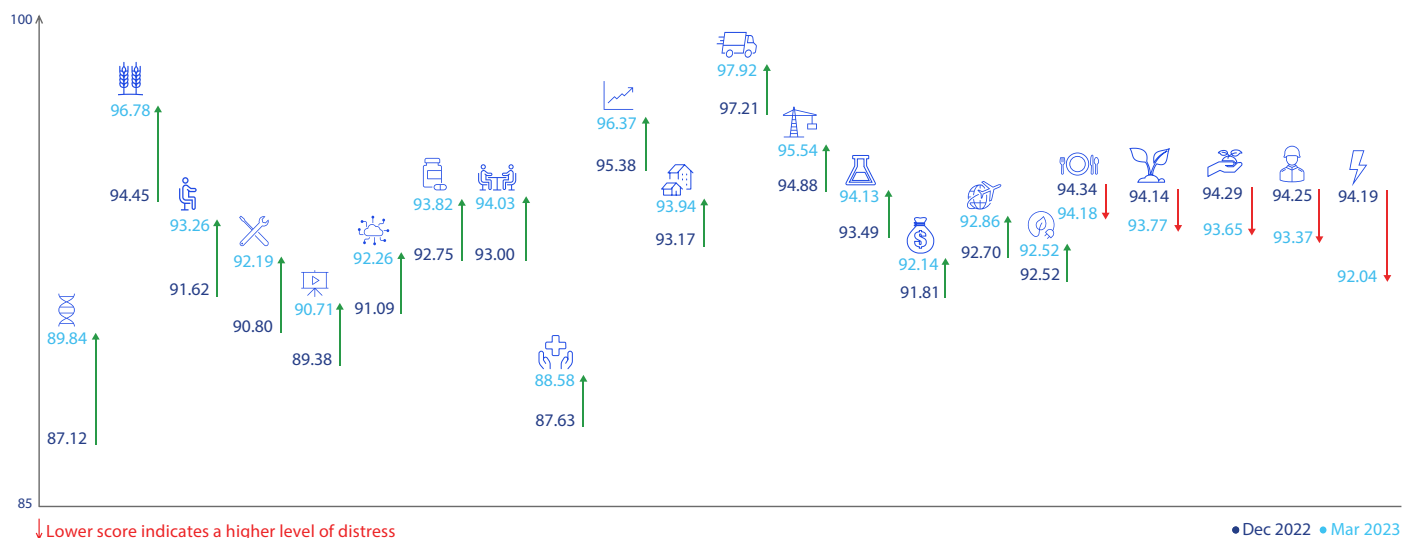
KPMG FPI score of publicly listed companies in Europe increased from 89.10 in December 2022 to 89.58 in March 2023



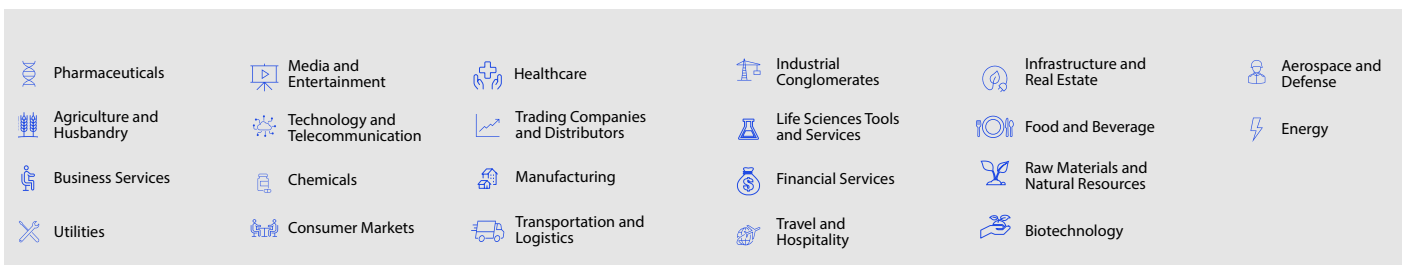
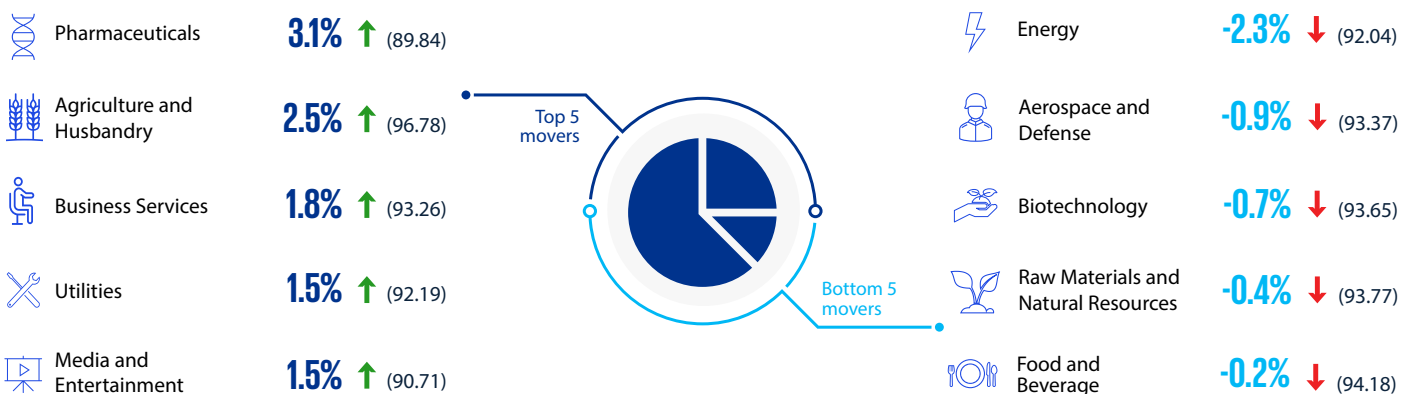
Note:
KPMG FPI is analysed across 19 European countries, including Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Poland, Portugal, Romania, Russia, Spain, Sweden, Switzerland, UK.

KPMG FPI quarterly sector moves

From December 2022 to March 2023



Strongest sector outperformers



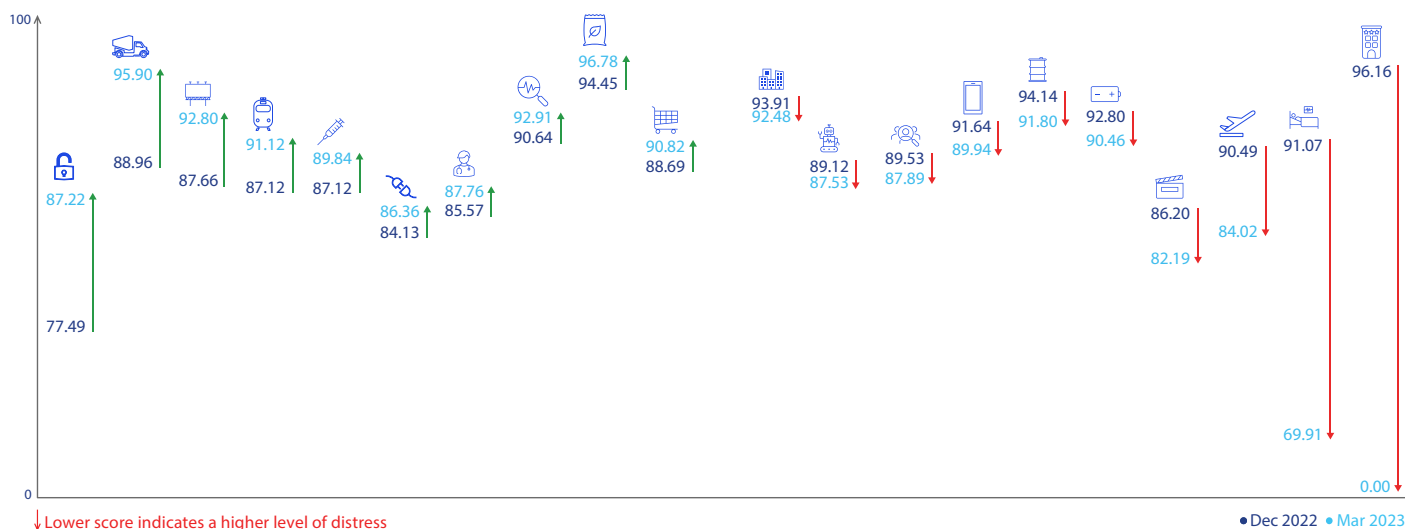
Note:

(1) % change in KPMG FPI scores in Q1 2023 over Q4 2022 ↑ (Q1 2023 KPMG FPI score).

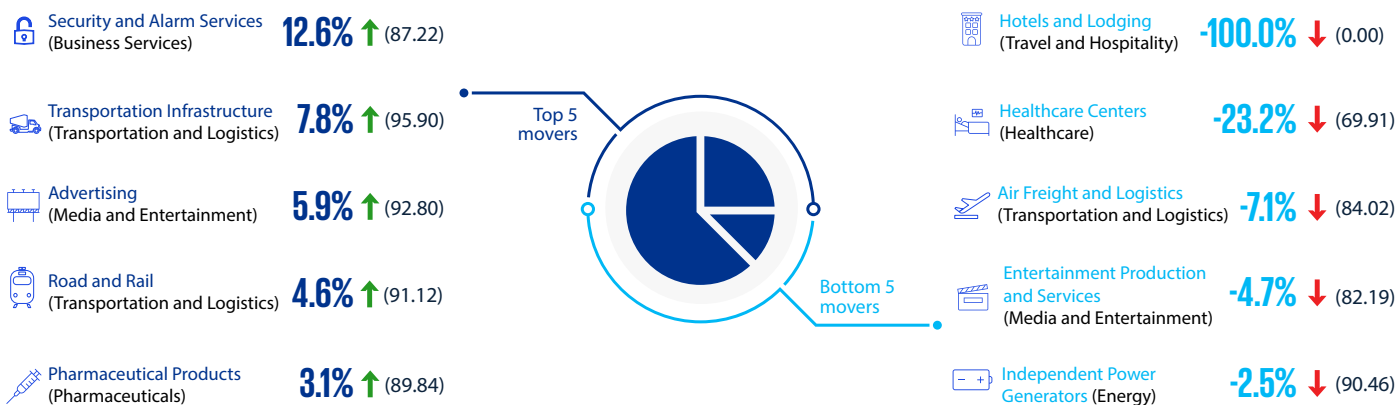
(2) % change in KPMG FPI scores in Q1 2023 over Q4 2022 ↓ (Q1 2023 KPMG FPI score).

KPMG FPI largest subsector movements

From December 2022 to March 2023



Strongest subsector outperformers



Note:

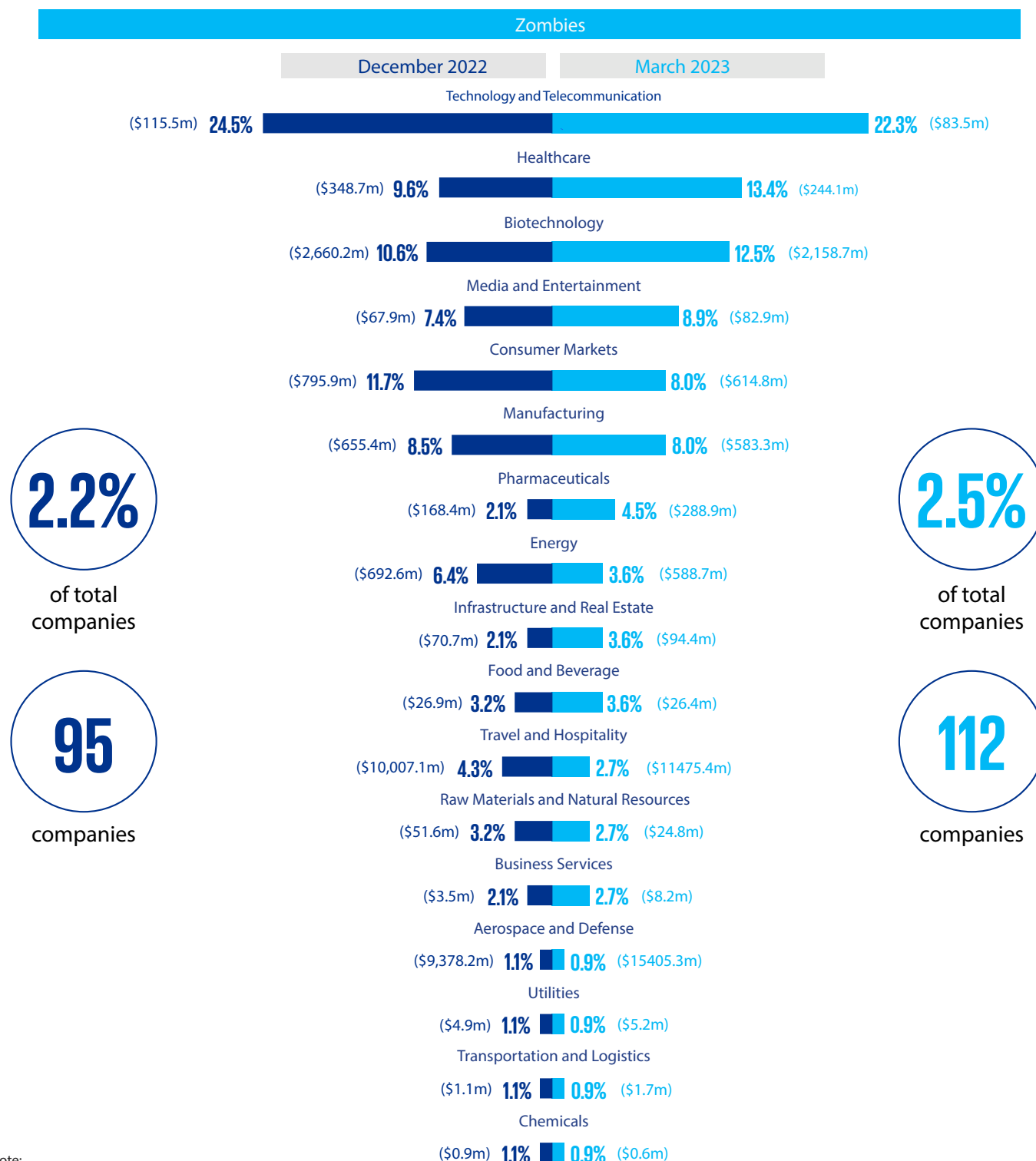
(1) % change in KPMG FPI scores in Q1 2023 over Q4 2022 ↑ (Q1 2023 KPMG FPI score).

(2) % change in KPMG FPI scores in Q1 2023 over Q4 2022 ↓ (Q1 2023 KPMG FPI score).

(3) A total of 208 publicly listed companies are involved in KPMG FPI analysis for subsectors Security and Alarm Service (5), Transportation Infrastructure (7), Advertising (39), Road and Rail (8), Pharmaceutical Products (84), Hotels and Lodging (3), Healthcare Centers (3), Air Freight and Logistics (4), Entertainment Production and Services (30), and Independent Power Generators (25).

Trends of Zombies in the KPMG FPI

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



Note:

(1) December 2022: (US\$ million) Cumulative market capitalisation of zombies, % share of zombies.

(2) March 2023: (US\$ million) Cumulative market capitalisation of zombies, % share of zombies.

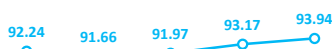
(3) Sectors Agriculture & Husbandry, Financial Services, Industrial Conglomerates, Life Sciences Tools & Services, and Trading Companies & Distributors do not have zombie companies in quarters ended December 2022 and March 2023.

KPMG FPI trends across key industries for the Dutch economy

KPMG FPI analysis on 12 key industries of the Dutch economy is an indication of its health. The Dutch economy strongly bounced back following the pandemic, which is reflected by the overall good Q1 sector scores (92 – 93 range score vs 89 score of FPI Europe overall) with outliers on both the high (>96 score) and low end (88 score). Despite its relative good overall FPI performance, a slight contraction of 0.7 percent of the Dutch economy over Q1 2023 was reported by the Dutch Statistic Agency (CBS)⁽¹⁾ mid May 2023. Further headwind and hence pressure on FPI scores is anticipated for the Dutch economy considering its largest trading partner Germany reported a recession on 25 May 2023, which is a reflection of a.o. the current inflationary, interest and geopolitical challenges.



Manufacturing



1Q22 2Q22 3Q22 4Q22 1Q23



Trading Companies and Distributors



1Q22 2Q22 3Q22 4Q22 1Q23



Healthcare



1Q22 2Q22 3Q22 4Q22 1Q23



Business Services



1Q22 2Q22 3Q22 4Q22 1Q23



Transportation and Logistics



1Q22 2Q22 3Q22 4Q22 1Q23



Infrastructure and Real Estate



1Q22 2Q22 3Q22 4Q22 1Q23



Financial Services



1Q22 2Q22 3Q22 4Q22 1Q23



Technology and Telecommunication



1Q22 2Q22 3Q22 4Q22 1Q23



Agriculture and Husbandry



1Q22 2Q22 3Q22 4Q22 1Q23



Travel and Hospitality



1Q22 2Q22 3Q22 4Q22 1Q23



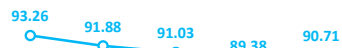
Life Sciences Tools and Services



1Q22 2Q22 3Q22 4Q22 1Q23



Media and Entertainment



1Q22 2Q22 3Q22 4Q22 1Q23

Note:

(1) Centraal Bureau voor de Statistiek (CBS), [Link](#) ; All links accessed on 23 May 2023.

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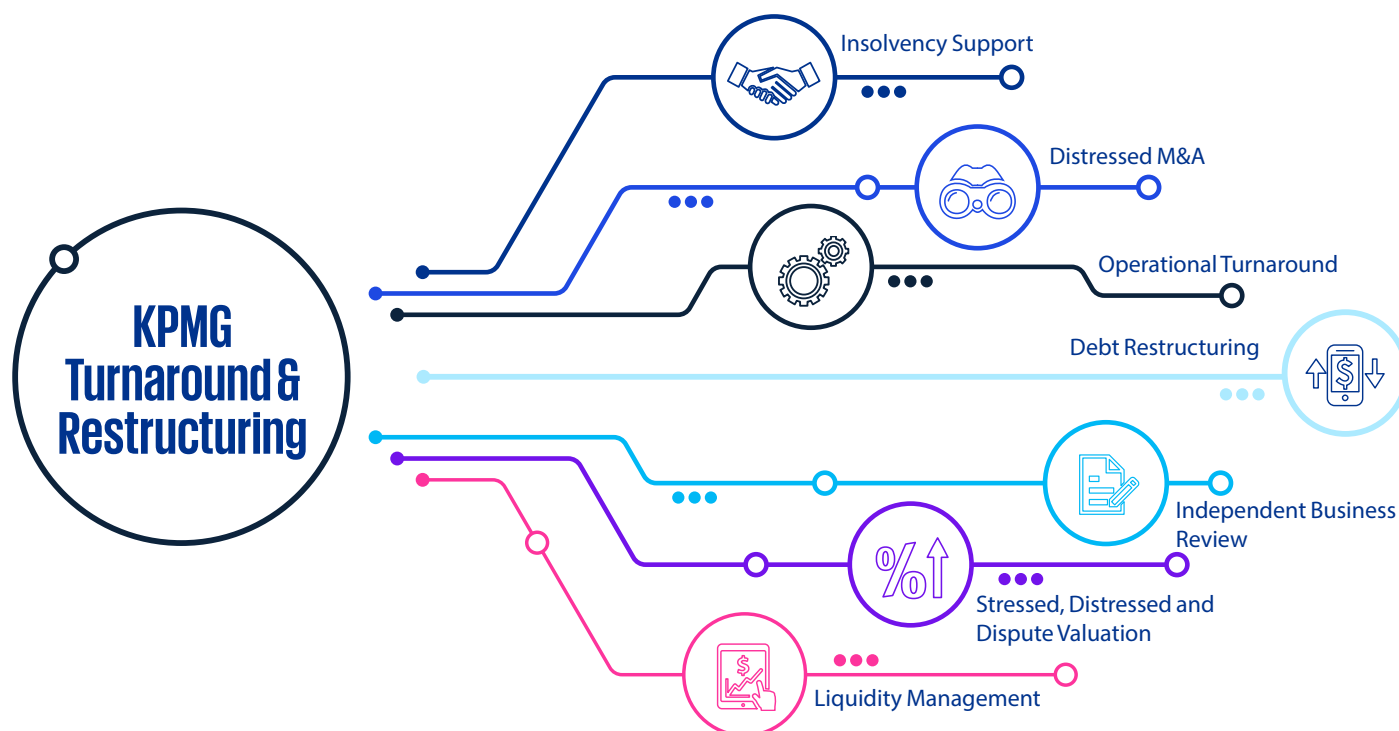
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