



# KPMG Financial Performance Index (KPMG FPI)

An indicator of corporate health for listed  
companies headquartered in New Zealand  
as at June 2023.

—  
August 2023

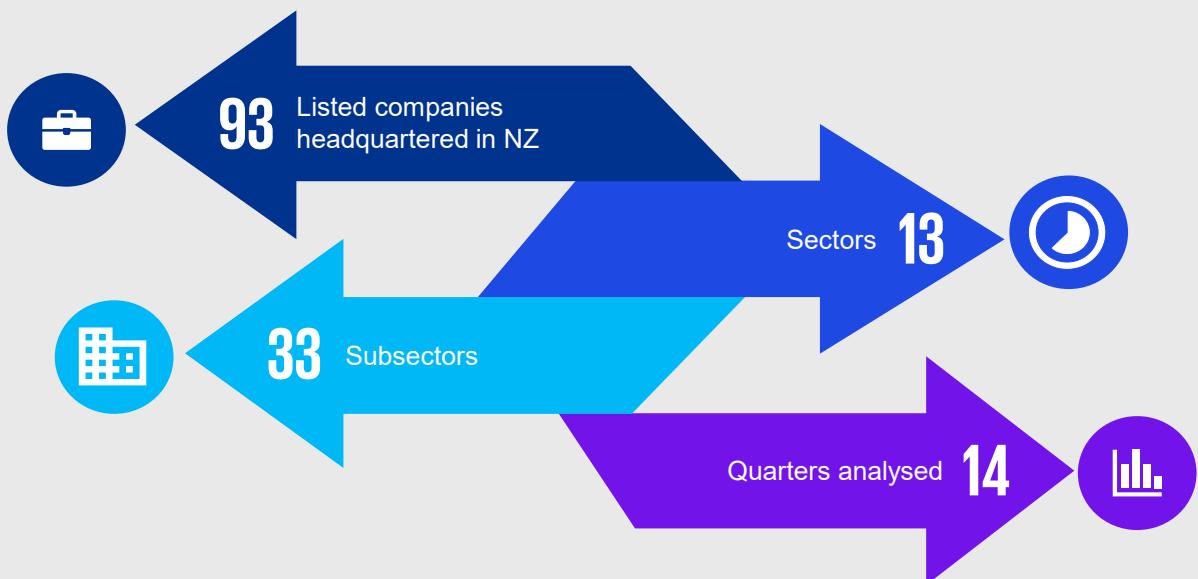


# About KPMG Financial Performance Index (FPI)

The KPMG FPI distills a range of market and financial performance indicators into a single index covering nearly 34,000 public companies around the world. The index scores companies on a scale of zero to 100, with zero indicating serious distress and 100 being best-performing.

Since many companies tend to perform well for most of their lifespans, there is a natural survivorship bias towards a higher quartile score. As such, around 80% of the companies in our index score between 85 and 99. As the KPMG FPI is a logit model, a drop below the average can very quickly lead to an index score of zero. Please refer to Appendix 1 for details on the FPI computation methodology.

## Scope of New Zealand analysis:



# Insights

01

## Key highlights

The average KPMG FPI for companies headquartered in New Zealand has increased (i.e. an increase in financial corporate health) from 1Q23 to 2Q23 as companies adjust to the volatility of late 2022.

The average KPMG FPI in New Zealand has decreased from 93.81 in 1Q23 to 93.25 in 2Q23. New Zealand's FPI score has remained relatively stable (within 2.00 bps) over the last four quarters.

02

## Sector movers

Four of the thirteen sectors included in the analysis experienced an increase in their KPMG FPI score from 1Q23 to 2Q23.

The sectors which experienced the greatest increase were Financial Services and Healthcare. Business Services and Pharmaceuticals experienced the greatest decrease.

We have observed an increase in the number of Zombie companies (companies scoring 0 on the KPMG FPI for three or more consecutive quarters) from 1Q23 to 2Q23.

03

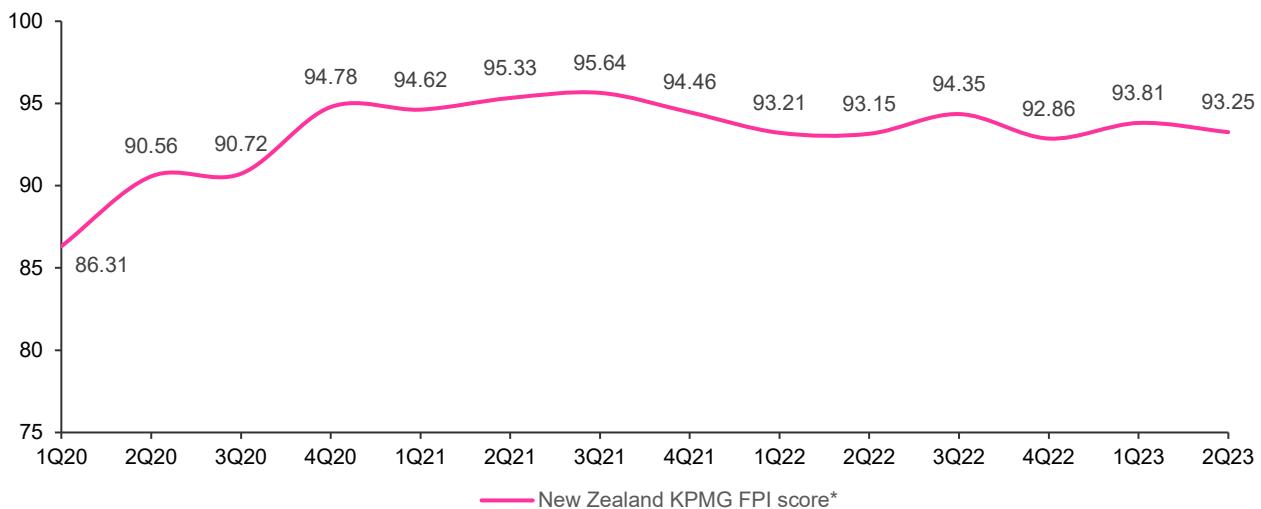
## Global Comparison

The global KPMG FPI score in 2Q23 was 89.90, an increase from 89.37 in 1Q23. This followed a decline in the global FPI average in 4Q22 and 3Q22.

The New Zealand average FPI score has been above the global average for these periods.

New Zealand experienced a slight decrease in 2Q23 (0.76 bps) while the global average increased (0.53 bps).

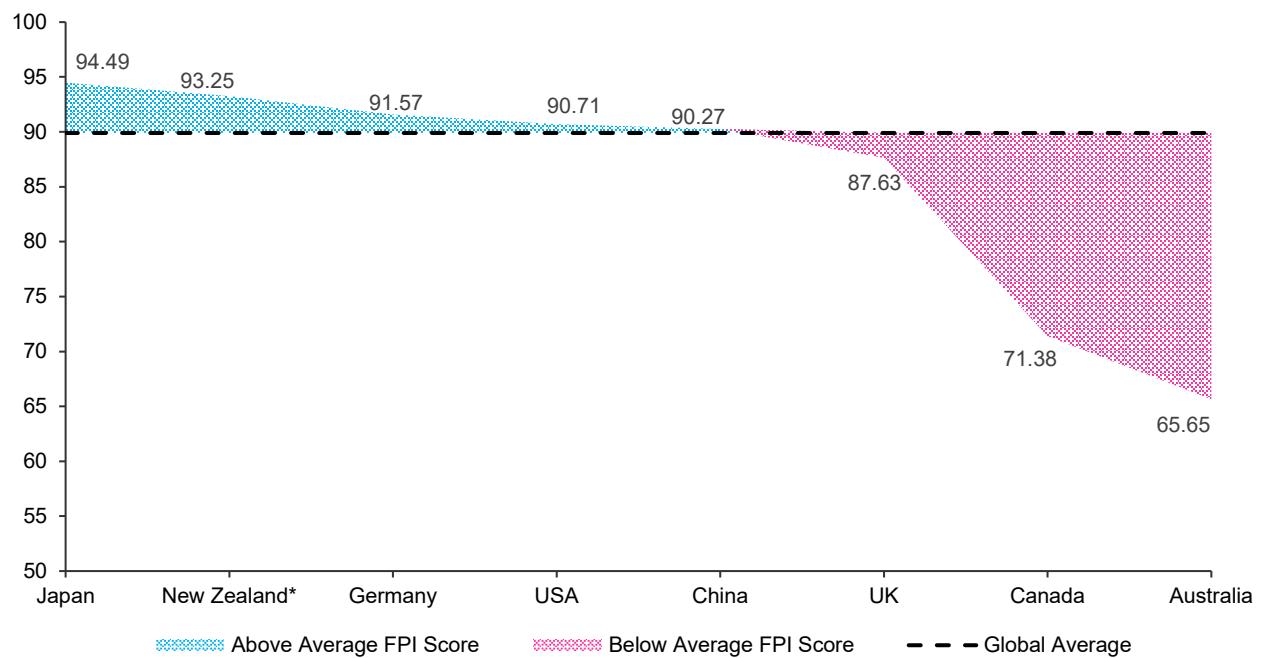
## KPMG FPI<sup>(1)</sup> across New Zealand companies



New Zealand's KPMG FPI score has shown relative stability over the last 12 months, following a period during the COVID-19 pandemic where FPI scores were lower.

(1) To ensure a comprehensive analysis of New Zealand's FPI and deliver deeper insights to our market, the FPI score presented in the charts above and below might include a larger number of companies compared to the findings of other KPMG member firms. This approach aims to capture the broadest representation of companies in our analysis. Please refer to Appendix 1 for further details regarding the change in calculation basis.

## KPMG FPI global comparators at 2Q23

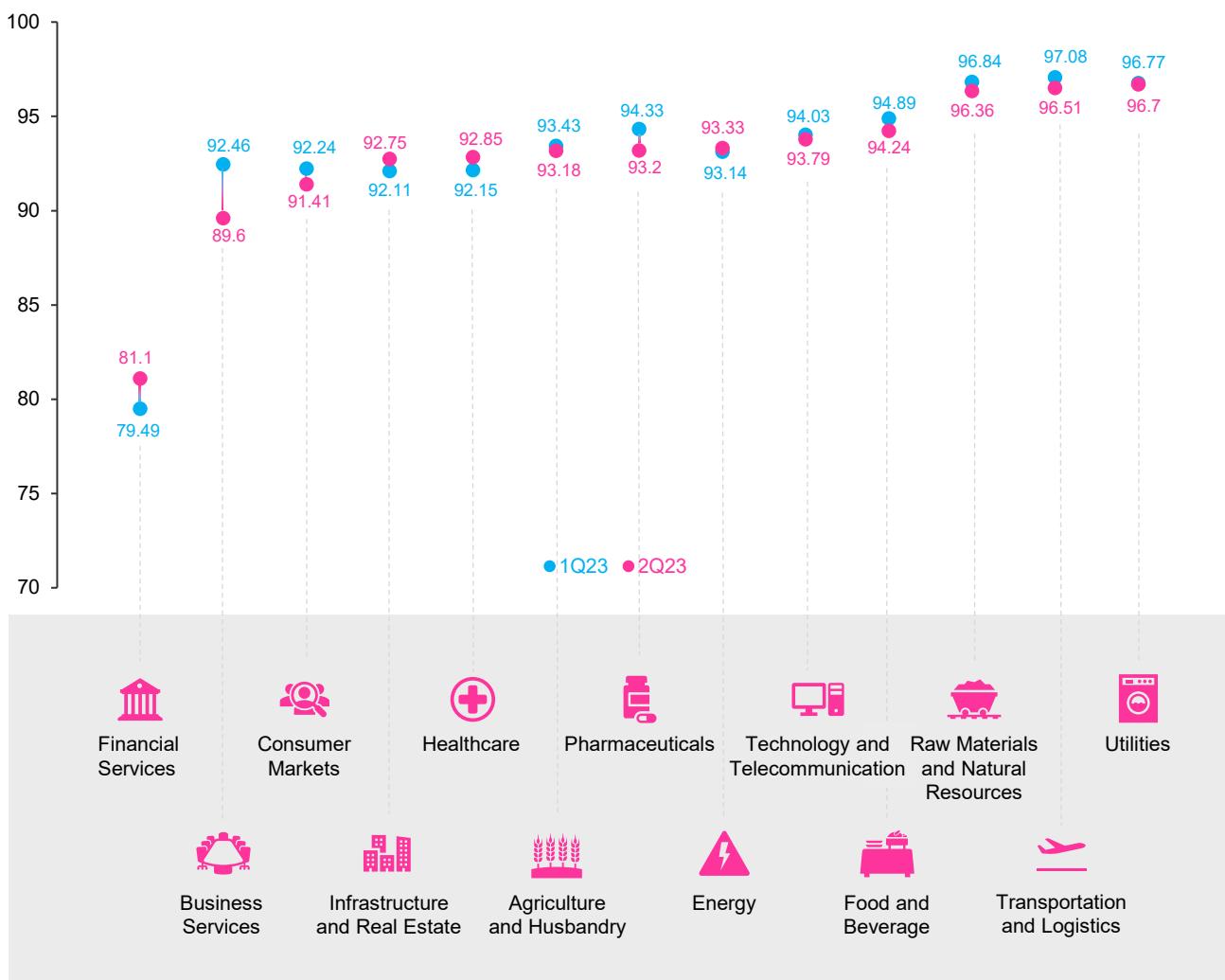


The average KPMG FPI score for countries is concentrated between 85 to 99. New Zealand has historically been above the global average and continues to be. Conversely, countries like Australia and Canada have had historically lower and more volatile KPMG FPI scores. The Australian and Canadian stock exchanges have a high proportion of speculative raw materials companies, which produce volatile results.

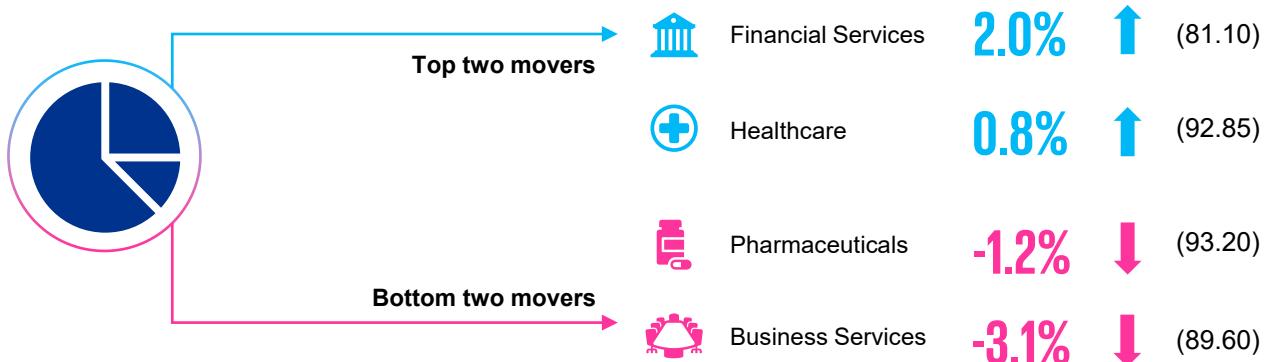
# KPMG FPI analysis of the New Zealand market

KPMG FPI analysis of the New Zealand market encompasses not only NZSE listed companies but also includes New Zealand headquartered companies listed on any foreign exchange. This broader approach ensures a comprehensive evaluation of the market's dynamics.

## KPMG FPI movement by sector



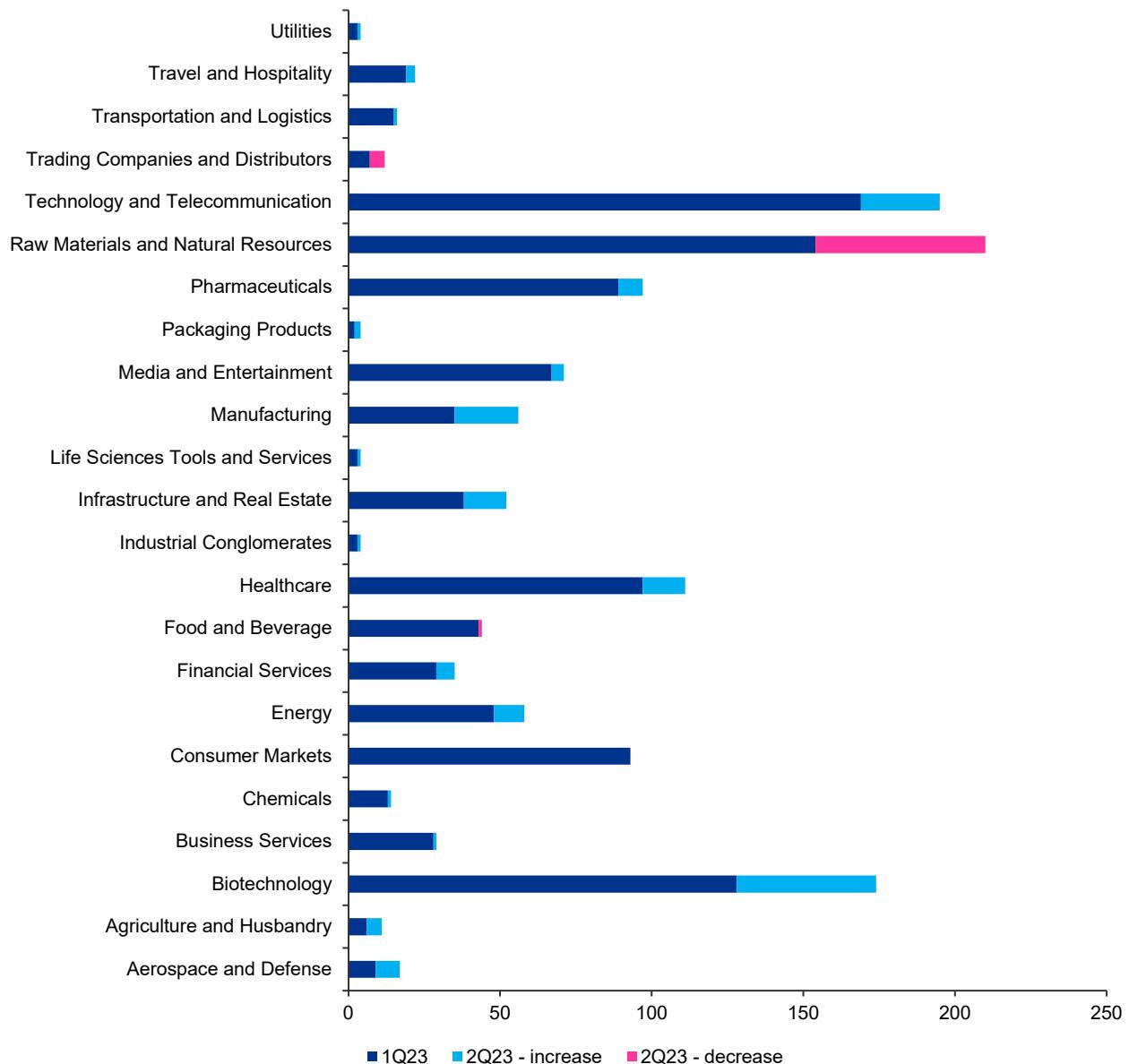
## Key movement in KPMG FPI score by sector



# Global zombies from 1Q23 to 2Q23

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.

The chart below shows the cumulative number of zombie companies, from a pool of nearly 34,000 companies globally, in 1Q23 to 2Q23.



1Q23 to 2Q23 saw an increase of 9.5 % in the number of zombies (1,161 to 1,271). The most zombies were found in Technology & Telecommunications (195), Biotechnology (174) and Raw Material & Natural Resources (154). Despite this, Raw Material & Natural Resources saw a decrease in the number of global zombies in 2Q23, along with Trading Companies and Distributors and Food and Beverage.

# What we expect to see in the coming months

There are a number of factors that will influence New Zealand companies' corporate health over the next few months.

- Inflationary pressures remain high, and households are facing **increased debt servicing costs** as borrowing is repriced to higher interest costs.
- **Businesses adjusting to higher interest rates**, with the most at-risk sectors being those with higher average levels of debt (i.e. the agricultural and commercial property sectors).
- **The lagged effects of restrictive monetary policy** weakening demand for labour, slowing household spending, and reducing business and residential investment.
- **Increasing unemployment**, with sharp lifts in the unemployment rate predicted from the second half of 2023.
- Degree of uncertainty caused by the **upcoming New Zealand general election**.

Overall, consumer and business confidence is low, indicating a weaker outlook for household and business investment, and reflecting the dampening effects of higher debt servicing costs.

New Zealand often trails behind larger markets which are also experiencing greater cyclical movements due to greater exposure to interest rate risks. KPMG FPI scores in these markets can be indicative of New Zealand's future FPI performance.

## Want to see your company's score?

To understand your company's current index score, or to uncover deeper insights about specific markets or segments, contact your local KPMG member firm. KPMG's global network of KPMG professionals have the data, sector and geographic expertise to help you understand your score and tie it back to your business needs. Whether it is benchmarking, identifying targets, comparing sectors or looking for trends over time, KPMG professionals can connect you right to the information you need to capitalize on your opportunities. That's our business. Please contact us at [in-fmkpmgfpi@kpmg.com](mailto:in-fmkpmgfpi@kpmg.com), or get in touch with the team below, to find out more.

## Get in touch



**Leon Bowker**  
Partner  
Restructuring Services



**Luke Norman**  
Director  
Restructuring Services



**Alton Pollard**  
Director  
Debt Advisory



**Janet Sprosen**  
Director  
Insolvency Services

**T:** +64 21 121 8393

**E:** [lbowker@kpmg.co.nz](mailto:lbowker@kpmg.co.nz)

**T:** +64 27 807 7989

**E:** [lnorman@kpmg.co.nz](mailto:lnorman@kpmg.co.nz)

**T:** +64 27 703 8423

**E:** [altonpollard@kpmg.co.nz](mailto:altonpollard@kpmg.co.nz)

**T:** +64 21 242 3529

**E:** [jsprosen@kpmg.co.nz](mailto:jsprosen@kpmg.co.nz)

# Appendices

# Appendix 1: Methodology and steps to compute FPI scores

## Methodology:

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 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.

Therefore, when exploring this data, readers should consider:

- The absolute score (0 to 100);
- Comparisons across geographies;
- Comparisons across sectors;
- Relative performance against peers;
- Trends over time;
- Macro events which are driving trends;
- Expected macro events which may affect future scores;

Average score looks at the total landscape and reflects an "average" of all publicly traded corporates headquartered in that country. While individual scores could range from 0 to 100, the average FPI score concentration is around 85 to 99.

## Steps to compute FPI scores:

### **Step 1: S&P Capital IQ Screening**

### **Step 2: Model run & hygiene checks:**

The following hygiene checks are performed:

- 1) Keep only public companies;
- 2) Eliminate companies whose first pricing date is after the tenth day of the current quarter;
- 3) Eliminate companies that have their last pricing date before the last day of the current quarter;
- 4) Remove companies with no industry;
- 5) Eliminate companies which have their latest quarterly filing date 6 months (for latest quarter) / 3 months (for previous quarters) before the current quarter and latest half-yearly filing date 9 months (for latest quarter) / 6 months (for previous quarters) before the current quarter;
- 6) Exclude speculative stock exchanges (E.g. OTCPK, OTCNO);
- 7) Eliminate companies which do not have a probability to default score; and
- 8) Remove outliers by performing data normalisation: z-score normalisation.

### **Step 3: Elimination of outliers <sup>(1)</sup>**

Determine # of companies and remove outliers (# < 3) in the country-subsector cut.

### **Step 4: Final list of companies**

### **Step 5: Create reference sheets for calculation of cuts**

### **Step 7: Compute FPI scores for sectors, subsectors, regions, countries, etc.**

(1) Due to the size of the New Zealand market, Step 3 has been removed from this report when generating FPI scores for New Zealand, and New Zealand sectors and subsectors.