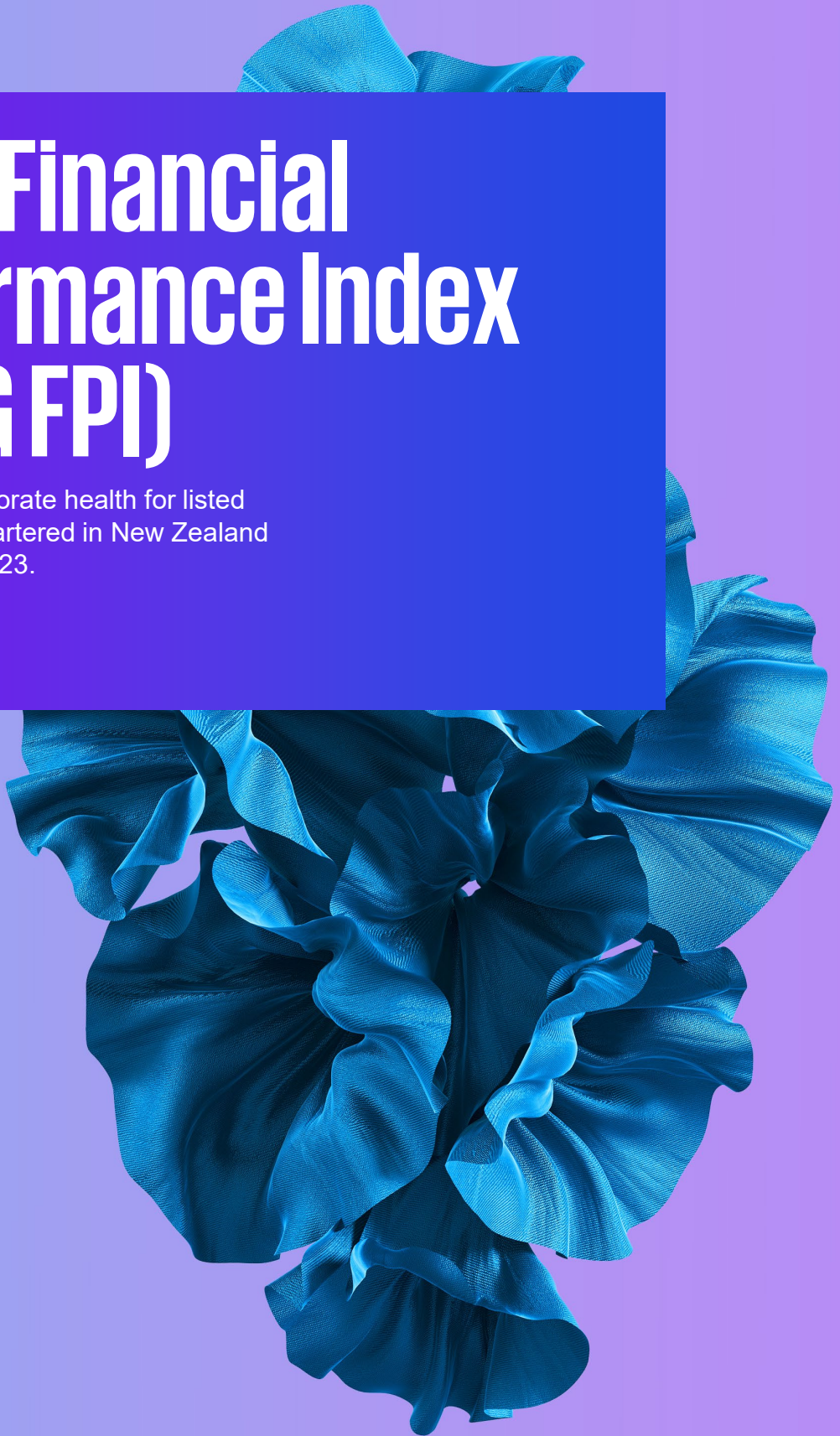


# KPMG Financial Performance Index (KPMG FPI)

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

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18 December 2023

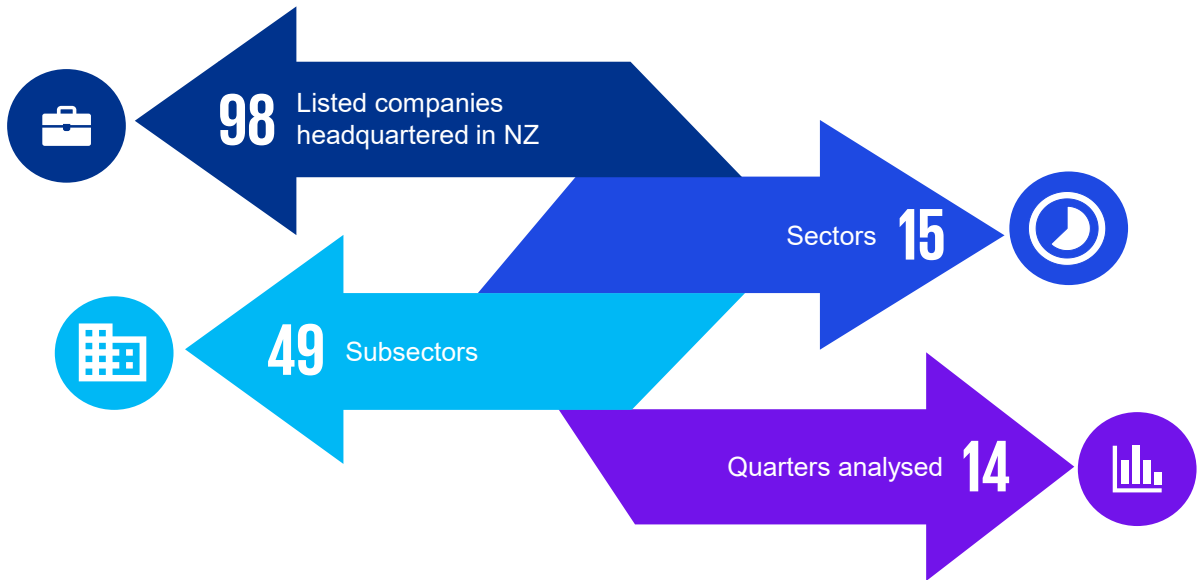


# KPMG Financial Performance Index (KPMG FPI)

The KPMG FPI distils 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 percent 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 FPI computation methodology.

## Scope of New Zealand analysis:



## 01

### Key highlights

The average KPMG FPI for companies headquartered in New Zealand has decreased (i.e. a decrease in financial corporate health) from 2Q23 to 3Q23 as the lagged recessionary impacts take effect.

The average KPMG FPI score in New Zealand has decreased from 94.50 in 2Q23 to 93.97 in 3Q23. New Zealand's FPI score has remained relatively stable (within 2.00 bps) over the last four quarters.

## 02

### Sector movers

Four of the fifteen sectors included in the analysis experienced an increase in their KPMG FPI score from 2Q23 to 3Q23.

The sectors which experienced the greatest increase were Financial Services and Food and Beverage. Business Services and REITS experienced the greatest decrease.

We have observed a decrease in the number of Zombie companies (companies scoring 0 on the KPMG FPI for three or more consecutive quarters) from 2Q23 to 3Q23.

## 03

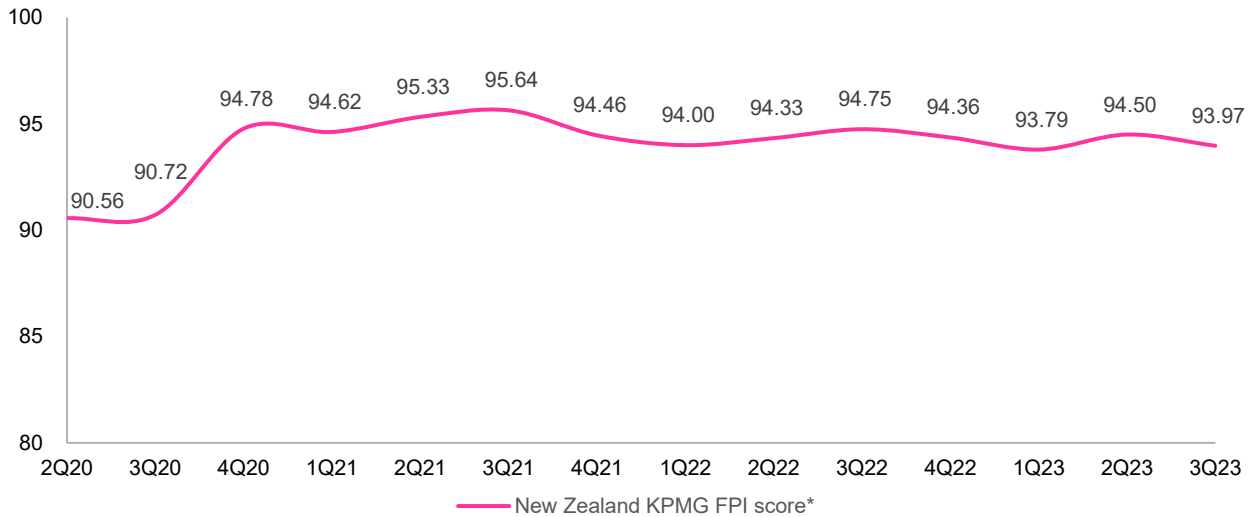
### Global Comparison

The global KPMG FPI score in 3Q23 was 90.01, a decrease from 90.58 in 2Q23. This followed an increase in the global FPI average from 1Q23 to 2Q23.

The New Zealand average FPI score has been above the global average for these periods, and has continued to be in 3Q23.

New Zealand experienced a similar decrease (53 bps) to the global KPMG FPI score (57 bps).

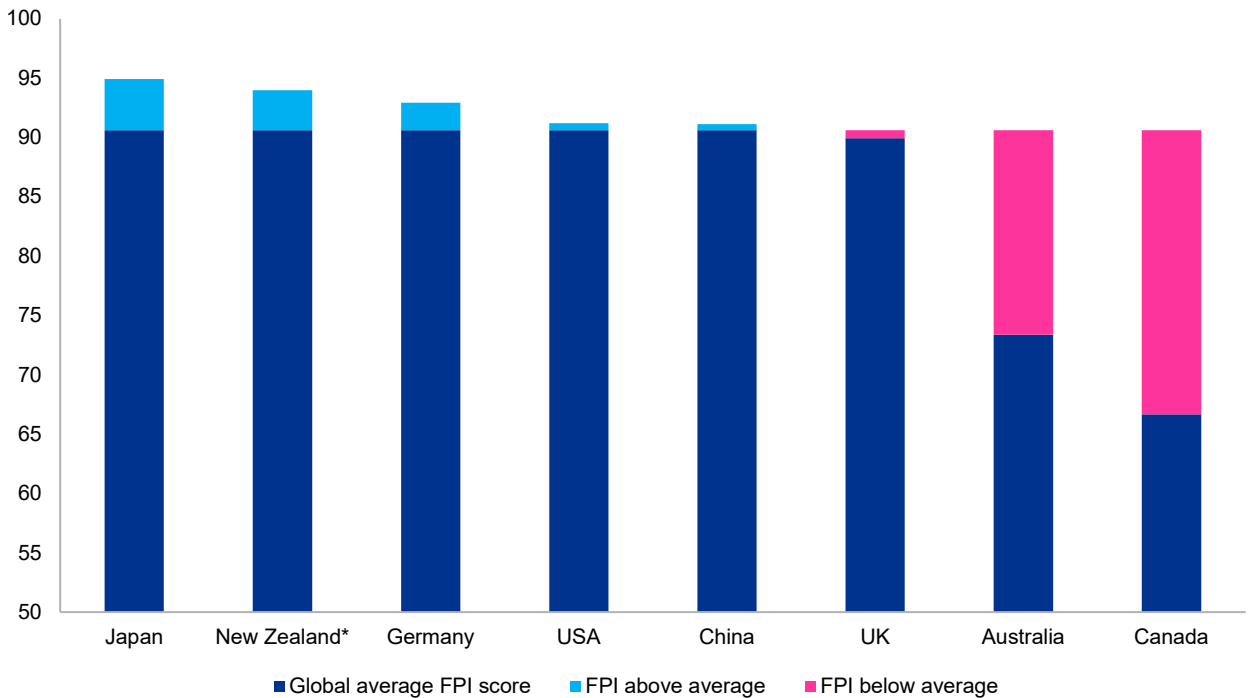
# KPMG FPI<sup>(1)</sup> across New Zealand companies



New Zealand’s KPMG FPI score has shown relative stability over the last 12 months, with a small increase in 3Q23 indicative of a market in recovery.

(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.

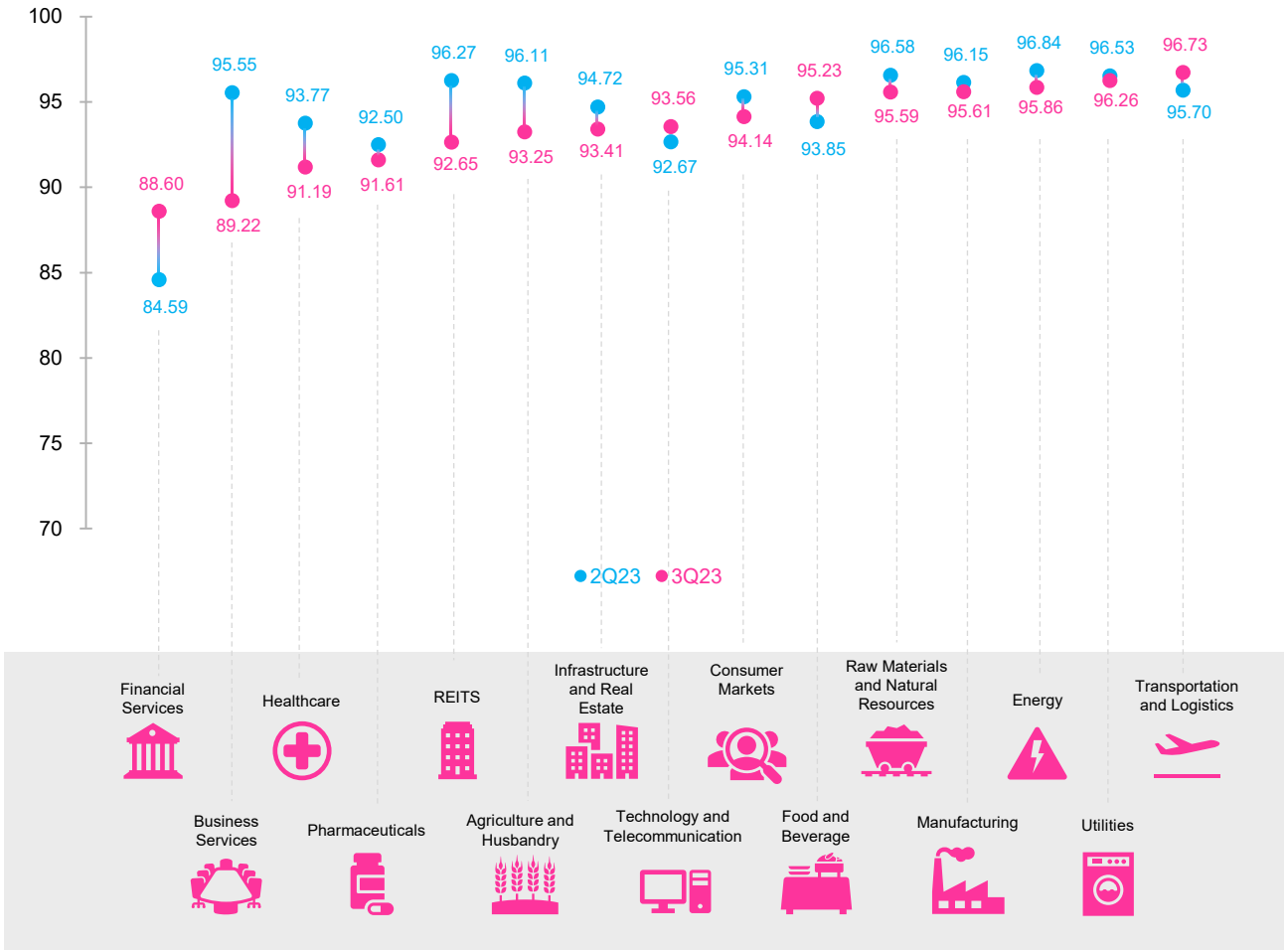
# KPMG FPI global comparators at 3Q23



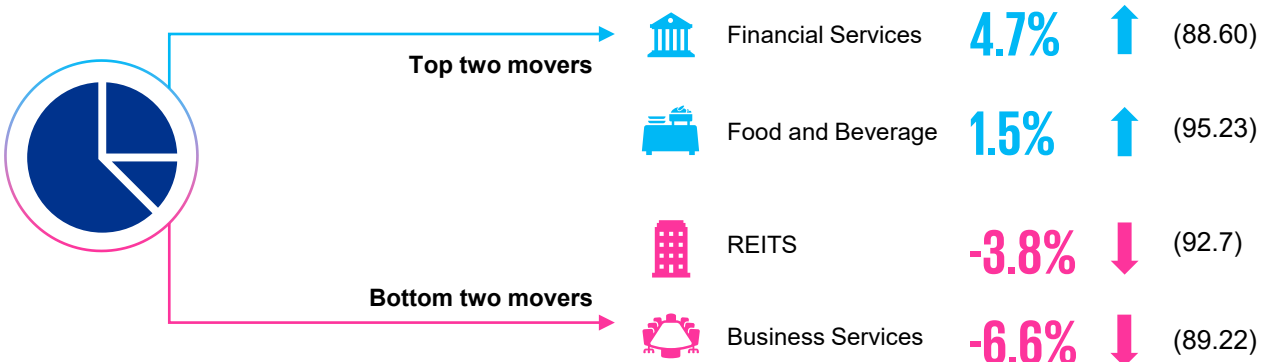
The average KPMG FPI score for countries is concentrated between 85 to 99. New Zealand has historically been above the global average, and continues to be. Conversely, countries like Australia and Canada have had historically lower and more volatile KPMG FPI scores. The Australian and Canadian stock 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.



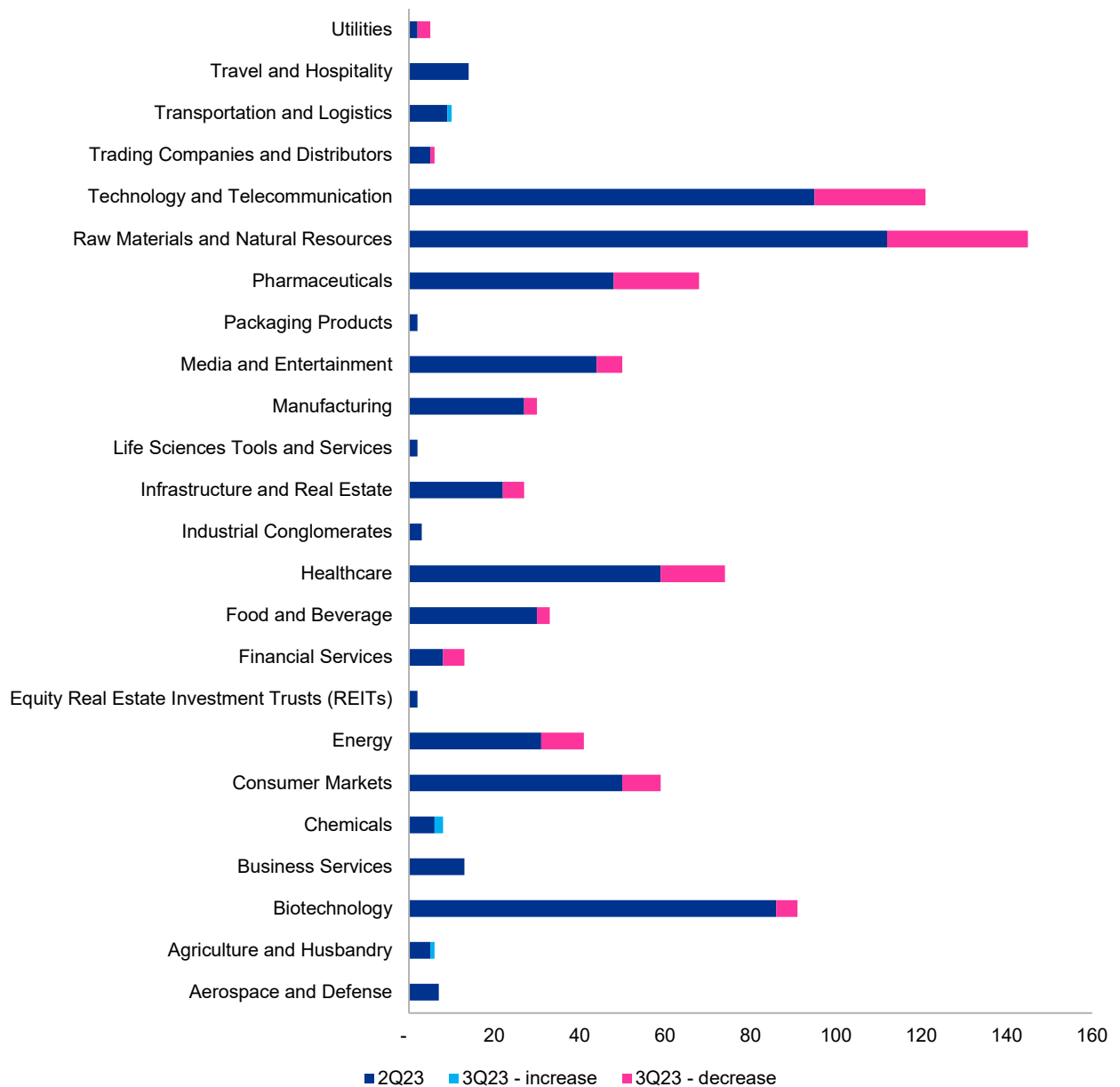
## Key movement in KPMG FPI score by sector



# Global zombies from 2Q23 to 3Q23

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, from 2Q23 to 3Q23.



2Q23 to 3Q23 saw a decrease of 16.9% in the number of zombies (826 to 686). The most zombies were found in Raw Material & Natural Resources (112), Technology and Telecommunication (95) and Biotechnology (86). Despite this, Raw Material & Natural Resources and Technology and Telecommunication saw a significant decrease in the number of global zombies in 3Q23.

# 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.

- ❖ **Core inflation remains high globally, and central banks are expected to keep monetary policy tight for some time.** The full impact of the global economy's adjustment to higher interest rates is still to be seen.
- ❖ **Higher debt servicing burdens** will continue to test highly-indebted households. Coupled with this is expectations of **rising unemployment**, which will weigh on consumer confidence.
- ❖ Import-driven inflation has reduced, however, the typically sticky **core (domestic-driven) inflation remains high.**
- ❖ **Hopes of a strong recovery in China have not been realised to date**, which is concerning for New Zealand's net export recovery going forward.

Consumer spending volumes are set to remain weak until early 2024, and likely longer. Businesses are likely to continue to feel the pressure as the economy remains roughly flat. In the longer-term, there are positive expectations for inflation to recede to manageable levels and exports to return to normal levels.

Monitoring of 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) to find out more.

## Get in touch



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# Appendices



# Appendix 1: Methodology and steps to compute FPI scores

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.

When exploring this data, therefore, 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:**

Following hygiene checks are performed:

- 1) Keep only public companies;
- 2) Eliminate companies which their first pricing date after the tenth day of the current quarter;
- 3) Eliminate companies which 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.**