KPMG Financial Performance Index (KPMG FPI)

An indicator of corporate health for listed companies headquartered in New Zealand as at June 2024.

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August 2024

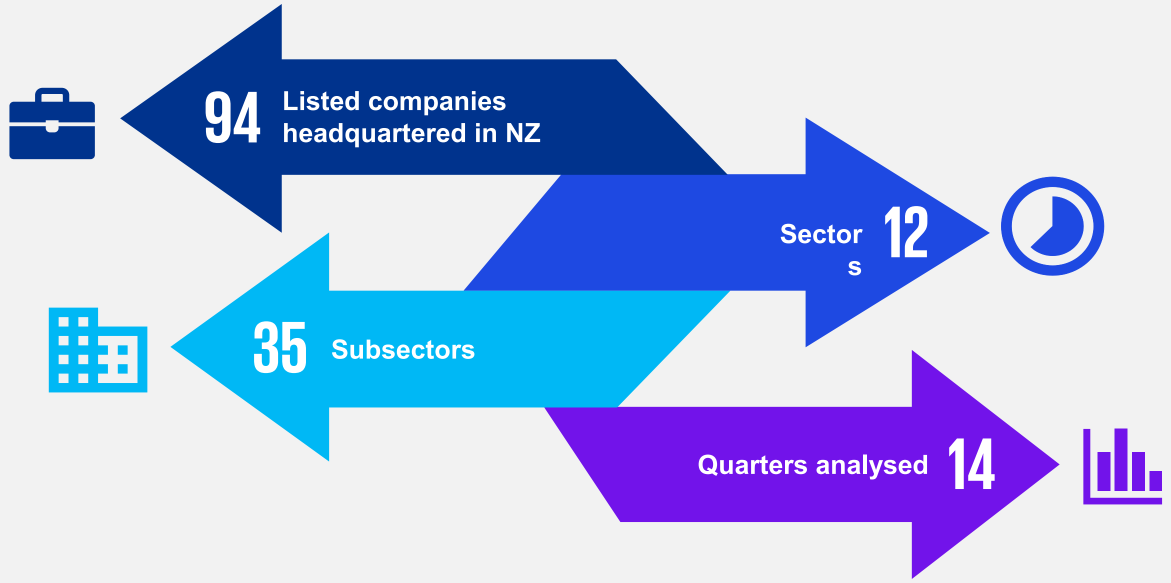
KPMG Financial Performance Index (KPMG FPI)

The KPMG FPI distils a range of market and financial performance indicators into a single index covering nearly 40,000 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



Insights

01

Key highlights

The average KPMG FPI for companies headquartered in New Zealand has decreased (i.e. a decrease in financial corporate health) from 93.41 in 1Q24 to 92.56 in 2Q24 which is reflective of the impact of sustained restrictive monetary policy and difficult global economic conditions.

The restrictive monetary policy has helped reduce consumer price inflation, leading to a recent marginal cut to the OCR of 0.25%. Most economists are expecting further rate relief across the remainder of 2024 and 2025, with expectations that CPI will return to the target range during 2024. While borrowers will get some marginal relief, interest rates and inflation pressures are expected to continue putting pressure on cashflows for businesses and households.

Amongst other indicators, excess labour supply and cautious hiring in the labour market, as well as restrictive consumer spending indicate economic activity is likely to remain subdued in the immediate future with some relief offered by rate cuts.

02

Sector movers

The FPI for the Energy sector increased the most followed by the Food & Beverage sector in 2Q24.

Financial Services sector declined the most followed by Consumer Markets in 2Q24. The Financial Services decline reflects the concentration of companies with portfolios weighted towards consumer lending. High borrowing rates are impacting consumer demand, and the general economic conditions are resulting in higher credit losses and non-performing loans which are impacting margins in this sector. The consumer market decline reflects the pressure on discretionary spending from consumers, driven by the current borrowing rates and high cost of living.

We have observed a decline in the number of global zombie companies (companies scoring 0 on the KPMG FPI for three or more consecutive quarters) from 1Q24 (1,061) to 2Q24 (992).

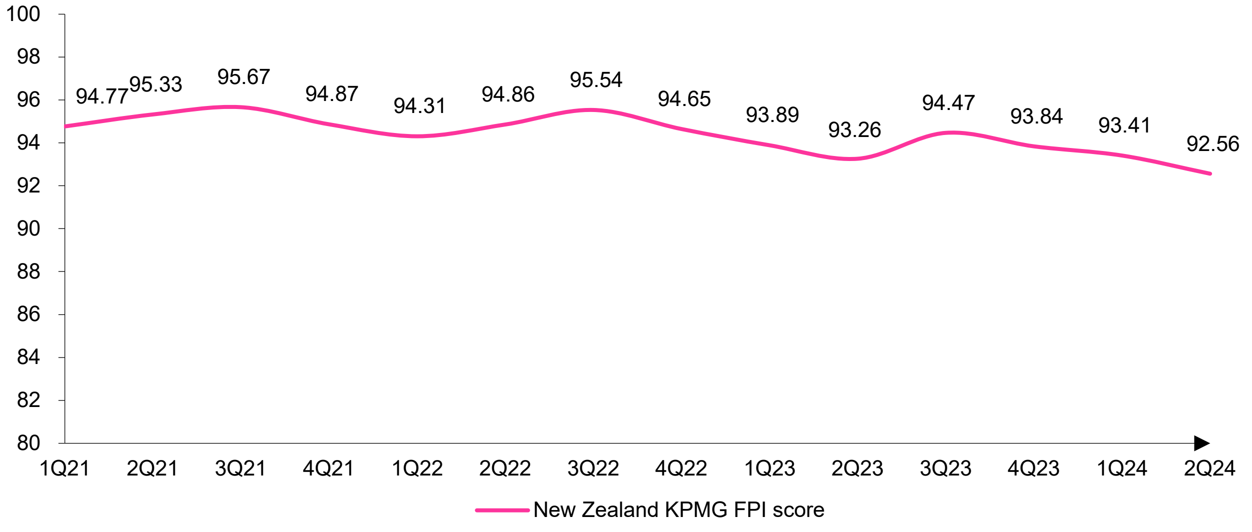
03

Global Comparison

The global KPMG FPI score in 2Q24 was 88.09, a decrease from 88.32 in 1Q24. This followed a decrease in the global FPI average from 4Q23 to 1Q24.

The New Zealand average FPI score has been above the global average for these periods and has continued to be in 2Q24.

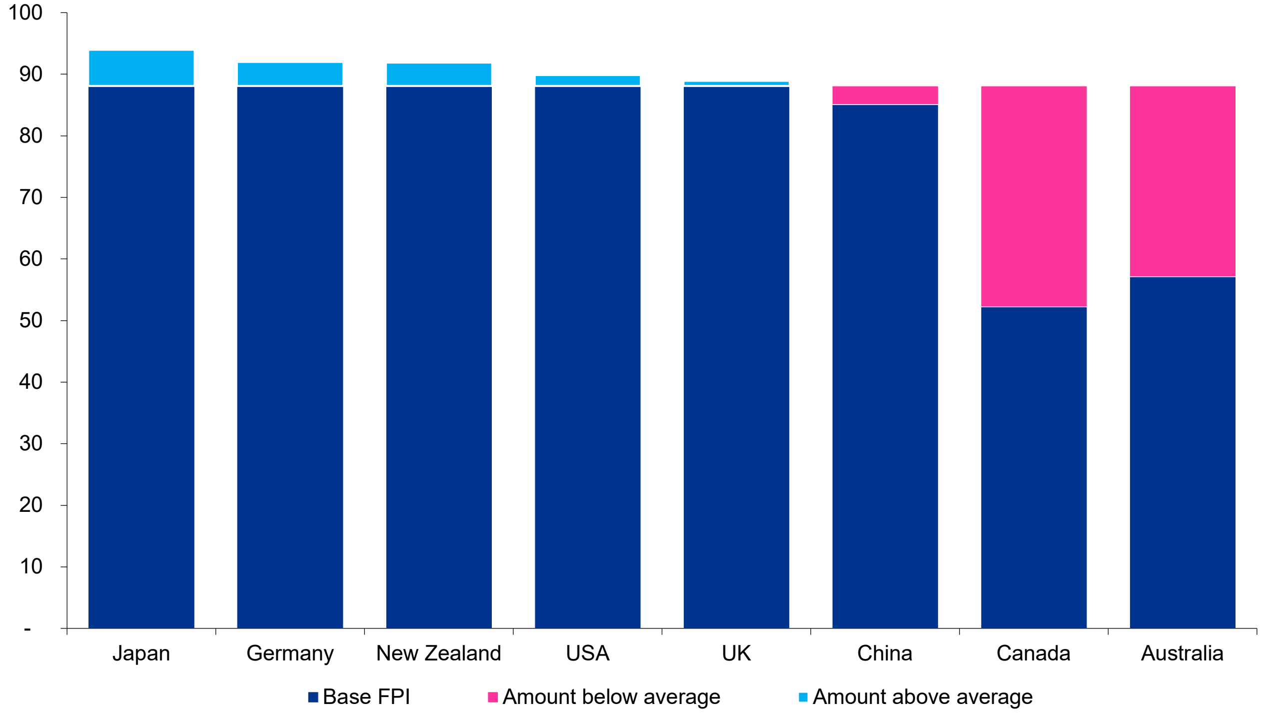
KPMG FPI[1] across New Zealand companies



New Zealand’s KPMG FPI score has declined in 2Q24 after being relative stability over the last three quarters indicative of impact of sustained monetary tightening.

(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.

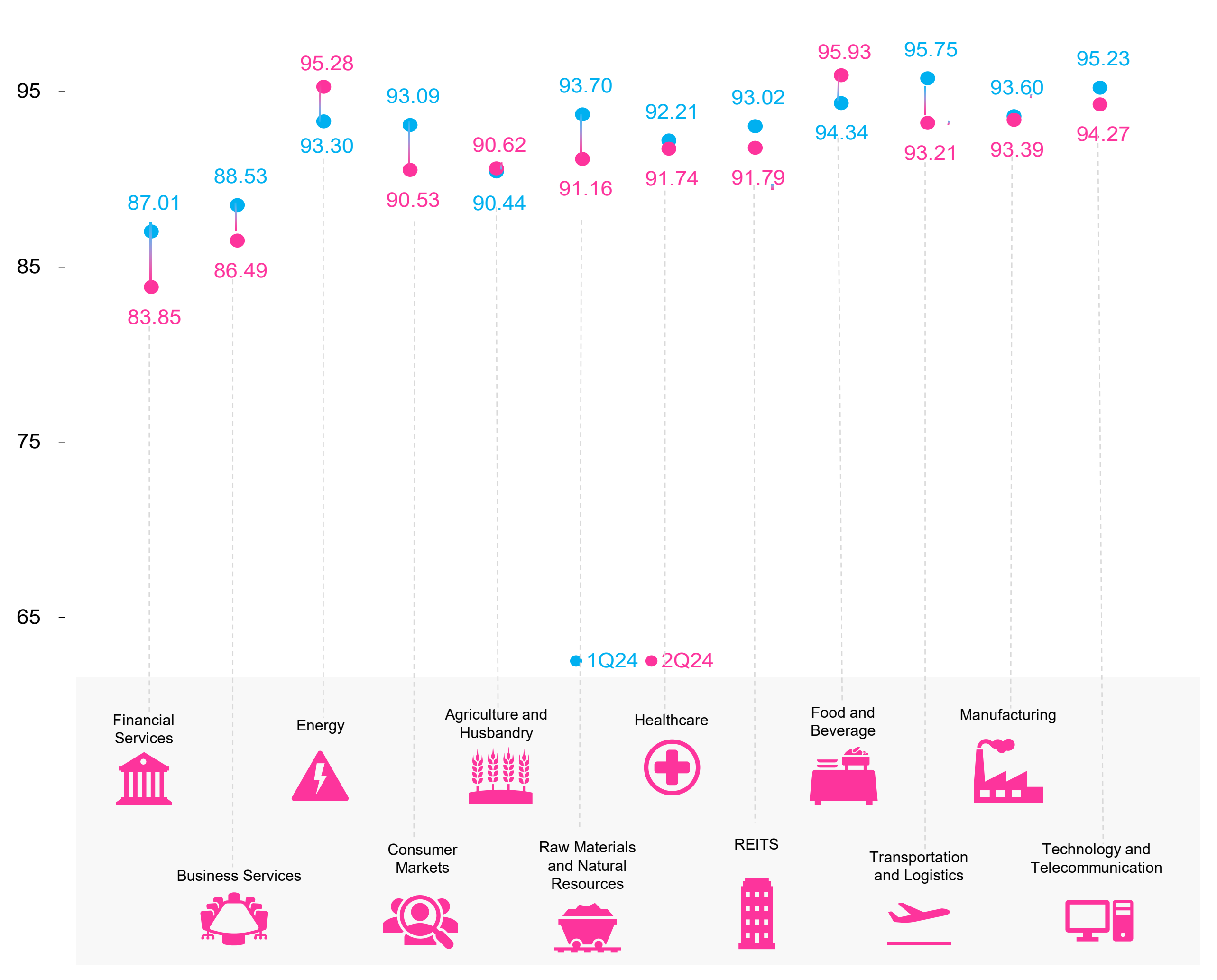
KPMG FPI global comparators at 2Q24



The average KPMG FPI score for countries is concentrated between 52 to 94. 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. These countries have a high proportion of speculative raw materials companies headquartered there, which produces 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. Some of the sectors analysed out of the dataset are as below:



Key movement in KPMG FPI score by sector

Top positive movers

Energy	2.1%	⬆	(95.28)
Food and Beverage	1.7%	⬆	(95.93)

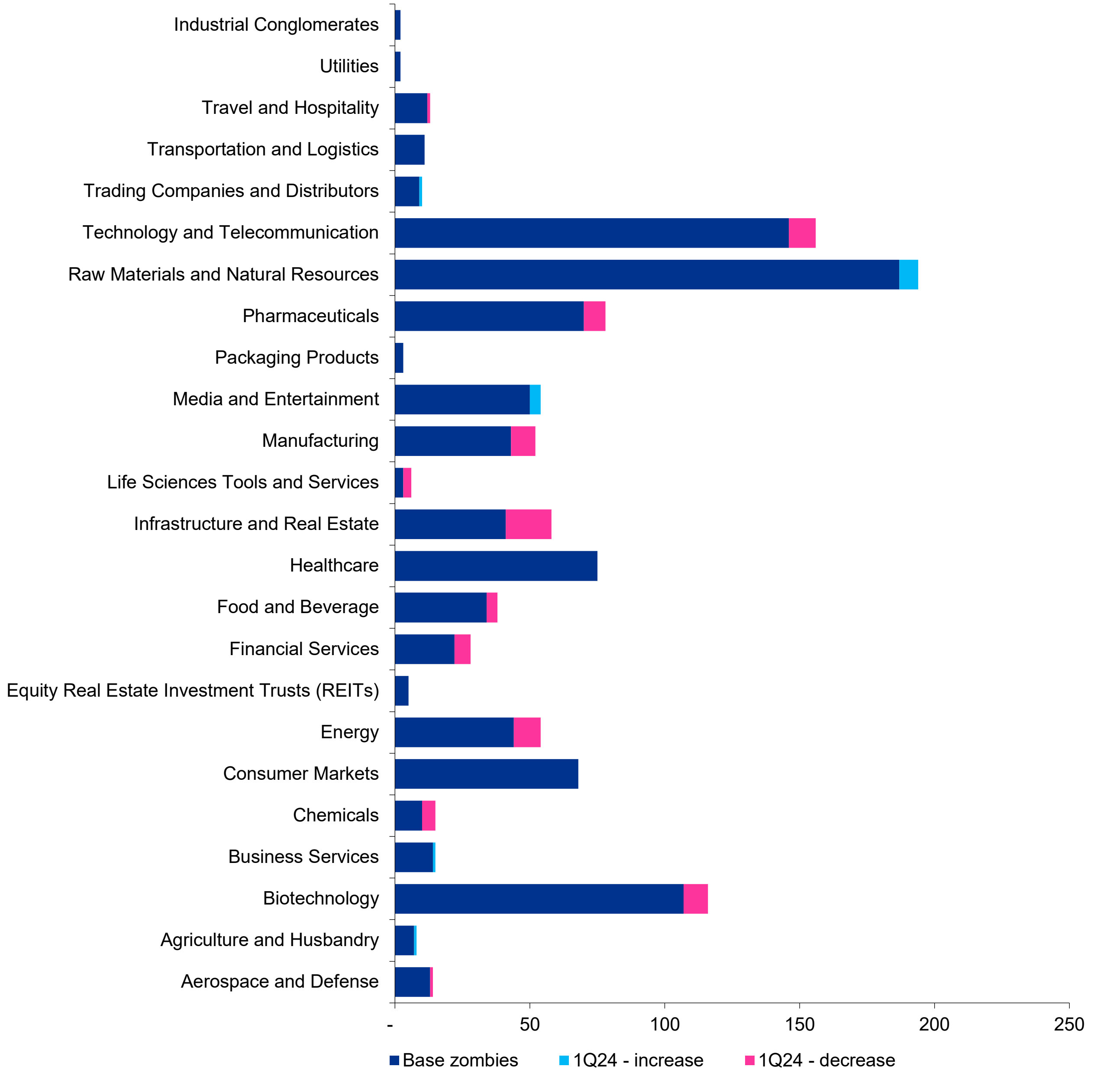
Bottom two movers

Financial Services	-3.6%	⬇	(83.85)
Energy	-2.8%	⬇	(90.53)

Global zombies from 1Q24 to 2Q24

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 1Q24 to 2Q24.



1Q24 to 2Q24 saw a decrease of 6.5% in the number of zombies (1061 to 992). The most zombies were found in Raw Material & Natural Resources (194), Technology and Telecommunication (146) and Biotechnology (107). While Infrastructure and Real Estate, REITs and Technology & Telecommunication were the major contributors to the reduction in global zombies; Raw Material & Natural Resources was the major contributor to the increase in global zombies in 2Q24.

What we expect to see in the coming months

The outlook for the New Zealand economy will remain subdued for the remainder of 2024 and well into 2025. Core economic factors that will influence New Zealand's corporate health include:

- **Consumer spending** is likely to remain relatively flat. Recent reductions in the Official Cash Rate and personal income tax cuts will help provide marginal relief to households. The full impact of these measures will take time to filter through the economy and will be mostly offset by the uncertainty in the labour market. Unemployment rate is expected to peak in 2025, with businesses continue to their staffing levels or closing altogether, and fewer new jobs being created.
- **Net migration** peaked at the start of 2024 but is still running near record levels, which will continue to prop up demand for local goods and services. Net migration has been trending down from the start of the year and the decline may accelerate due to the general slowdown in the economy.
- **Government spending** is not expected to increase over the coming year. The Government has allocated around $2.68b towards roads, rail, and public transport. This investment is expected to help restore some confidence and workflow to the civil construction sector, which is facing a significant downturn in new work. The new investment in infrastructure will be offset by savings and efficiencies in other parts of the public service. Recent and continued job cuts across public sector agencies will have a particularly strong impact on businesses in Wellington and their suppliers across the country.
- **Global demand for New Zealand products** will be impacted by the economic slowdown in our main trading partners, particularly China. The slowdown, combined with the ongoing global geopolitical tensions, may impact export-oriented business in New Zealand.
- **Businesses are likely to delay their investments** until their domestic and international operating environments stabilise.
- **Households are also likely to delay major purchases**, including housing. The housing market is likely to remain slow, even with recent and projected reductions in the OCR. Supply of housing is high, and more reluctant sellers may be forced to bring properties to the market.

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 to find out more.

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 be performing data normalisation: z-score normalisation.

Step 3: Elimination of outliers (1)

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 6: 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.

Get in touch

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