KPMG Financial Performance Index (KPMG FPI)

Volume Q2 2024 | The Netherlands – Europe

An indicator of corporate health for companies across the Netherlands and Europe

Foreword

We are pleased to share with you the **Q2 2024 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 till June 2024. We furthermore set out the KPMG FPI score for the 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.

The Netherlands, between **March 2024 and June 2024**, observed a **slight decrease in the average KPMG FPI** (i. corporate health) from **95.5 to 94.8**. Compared to 2Q23 the KPMG FPI score for the Netherlands has improved by roughly 2 points driven by growth observed in **Consumer Markets** (~9 points, +9.8 percentage points) and **Biotechnology** (~3 points, +4.3 percentage points) which displayed significant increase in FPI scores. **Biotechnology from Q-o-Q (1Q24 to 2Q24) perspective** has also displayed growth along with **Business Services which increased by close to +1 percentage points.**

Key highlights

- The Netherlands is experiencing a slow recovery in 2024 after a mild recession in 2023 caused by high inflation, declining exports, and weak business investment due to higher interest rates.
- The Dutch economy is expected to grow at a modest rate of 0.8% in 2024, slightly lower than the EU average of 1.0%. This economic slowdown is also reflecting in the FPI index, where the Netherlands, despite having the highest score in the European region, saw a slight decline from 95.5 in 1Q24 to 94.8 in 2Q24.
- However, growth is expected to accelerate in 2025, with a projected increase of 1.5%, supported by wage growth, easing inflation strengthening households' real disposable incomes and improved prospects for business investment and trade.

Europe – Sectors

- In the second quarter of 2024, the Travel and Hospitality sector experienced growth of 2.5%. This growth can be attributed to an increase in travel spending limits across the region, with projections indicating a steady increase of approximately 7% annually until 2030. Such an upward trajectory reflects a resurgence in consumer confidence and a willingness to invest in travel experiences post-pandemic.
- Furthermore, both the Consumer Markets and Industrial Conglomerates sectors demonstrated sustained momentum, as FPI scores exceeded 90 points. The expansion within Consumer Markets in 2Q24 was primarily driven by robust demand for home and personal care products, as well as luxury goods, indicating a shift in consumer priorities towards quality and brand prestige.
- Conversely, the Media and Entertainment sector encountered a decline during this quarter, a trend likely influenced by rising inflationary pressures. Industry stakeholders are reevaluating and strategizing their approaches to digital media, advertising, and online interactive services.
- Labor markets across various European countries are currently grappling with significant labor shortages. Corporations appear hesitant to commit to new investments amidst prevailing economic uncertainties. Critical sectors such as Manufacturing, Telecommunications, Agriculture, Financial Services, and Real Estate are expected to face growth limitations as challenges in recruiting new talent continue to mount.
- In response to these economic dynamics, the European Union has implemented an interest rate reduction, bringing rates down to 3.5%. This strategic move aims to balance inflationary pressures while simultaneously acting as a catalyst for growth within capital-intensive industries.

Contd.

Looking ahead, the Netherlands is anticipated to experience cautious economic growth (2024-25), with improvement in factors such as inflation rate (2.8% compared to 3.8% in 2023), government deficit (2.4% of GDP up from 1.5% in 2023), and robust consumer spending driven by recovery in household consumption, are some key factors which are expected to support economic growth and potentially elevate the country's FPI sector scores. However, there are some challenges to the economic growth as well such as subdued business investment due to ongoing labor shortages and financial constraints, rise in unemployment rates, decline in external demand influenced by global market conditions, are of some factors which might produce hinderance to economic growth.

Dutch Economy

- The Netherlands' economic growth was weak in 2023 with GDP growth of 0.1%. The country's real GDP contracted by 0.1% in Q1 2024, however, it is projected to recover in 2024, driven by a recovery in real wages supporting private consumption.
- Inflation is expected to be more stable in 2024 at 2.8% compared to 3.8% in 2023, attributed to lower energy prices and central bank interest rate hikes.
- The government deficit is projected to reach 2.4% of GDP in 2024, up from 1.5% in 2023. This rise is attributed to an increase in expenditure on social benefits and defense, as well as a boost in public investments.
- Business investment is expected to remain subdued due to ongoing skilled labor shortages and constrained financial conditions.
- External demand to witness a downturn as the country is exposed to global environment and its principal export markets are expected to slow down this year, including its neighbors in Europe, the United States and China.
- In 2024, the overall economic recovery is anticipated to grow cautiously, with the GDP growth experiencing a gradual increase after a contraction observed in 2023. The real GDP growth is projected to show a more substantial recovery starting from 2025, with an anticipated average growth rate of 1.7% between 2025-28.

Future Outlook

- Key factors driving Netherland's growth outlook include, economic growth is expected to increase to 1.5% in 2025, driven by robust consumer spending resulting from a significant recovery in purchasing power, as well as an improved outlook for business investment and trade.
- With a recovering economy, annual HICP inflation is expected to decrease from 2.5% in 2024 to 2.0% in 2025, as the benefit of lower energy prices extend to other price categories.
- Further, government debt projected to reach 46.8% of GDP by 2025, driven by increased spending on healthcare due to the aging population, higher defense expenditure to meet NATO's 2% GDP spending target and accelerating energy transition and infrastructure maintenance.
- Imports are projected to pick up in the second half of 2024 and start of 2025 due to recovery in household consumption as many goods and services consumed in the Netherlands are sourced internationally. Concurrently, as the economic outlook for major trading partners including Germany, France, the UK, Spain, Italy, and the US improves, exports is expected to observe a renewed growth.
- These developments are anticipated to support economic growth and potentially elevate FPI sector scores for the country.

Movements of KPMG FPI score across Europe

analyzed across...

3859 Companies

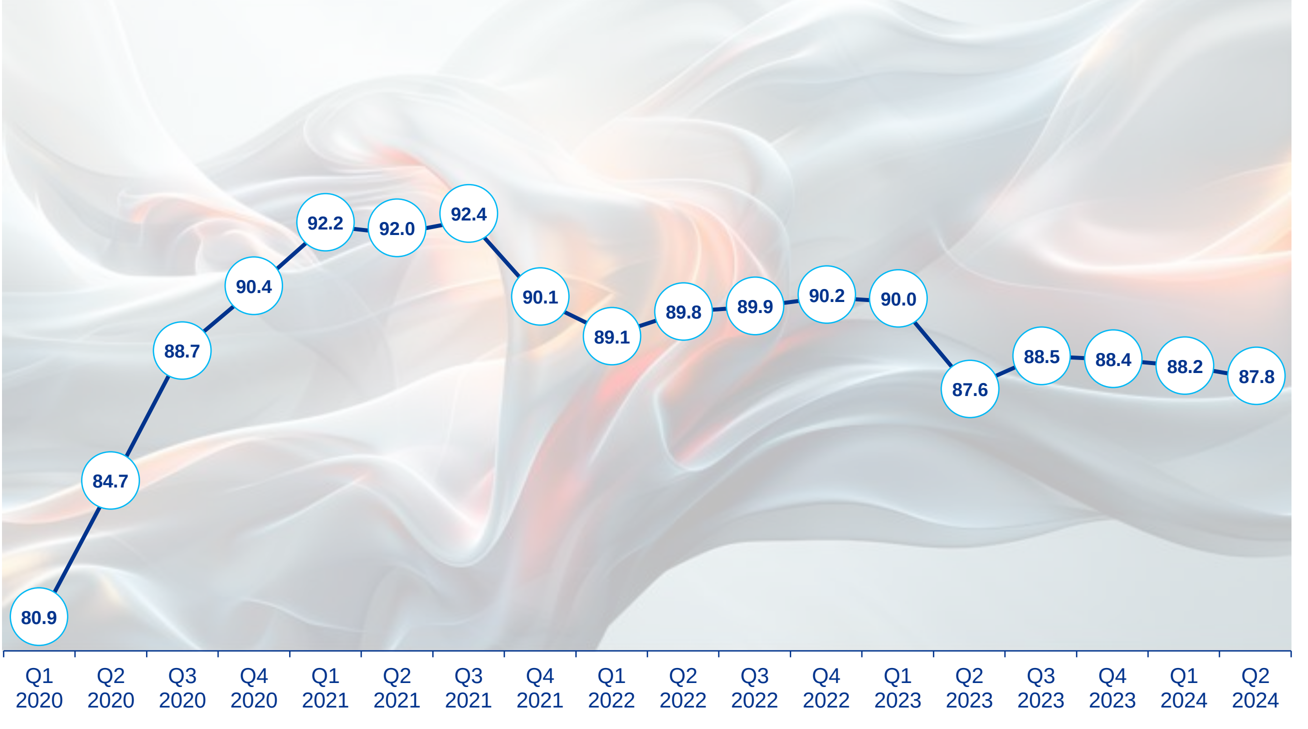
24 Sectors

78 Sub-sectors

18 Quarters

Movement of KPMG FPI scores across Europe

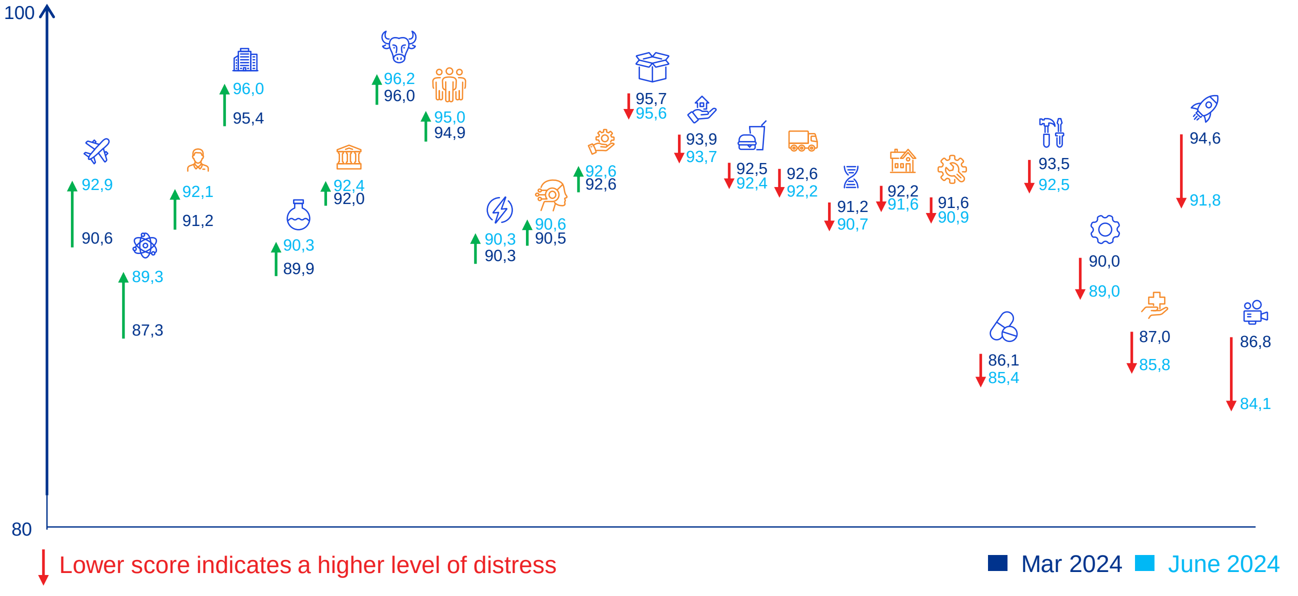
KPMG FPI score of companies headquartered in Europe decreased from 88.2 in March 2024 to 87.8 in June 2024



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

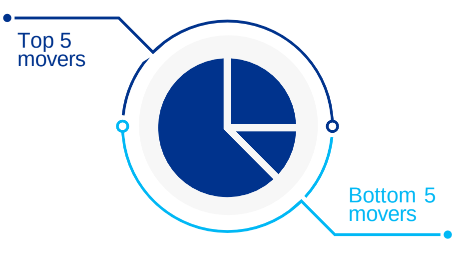
KPMG FPI sector moves – Europe

From March 2024 to June 2024



The Netherlands - KPMG FPI analysis on the **9 key industries of importance to the Dutch economy** is an indication of its health; please refer to the items in the graph on slide 5 marked Orange. Apart from the **Healthcare sector**, which had a FPI score of 85.8 (vs 87.0 for Q1 2024), the FPI score of all the other sectors is greater than 90.0. Moreover, 5 of the 9 sectors **Consumer Market, Financial services and Trading Companies and Distributors, Technology and Telecommunication and Business Services,** showed a rise compared to the previous quarter.

Strongest sector movements



Top 5 movers			Bottom 5 movers		
Travel and Hospitality	2.5% ↑	(92.9)	Media and Entertainment	-3.1% ↓	(84.1)
Raw Materials and Natural Resources	2.4% ↑	(89.3)	Aerospace and Defense	-2.9% ↓	(91.8)
Consumer Markets	1.1% ↑	(92.1)	Healthcare	-1.4% ↓	(85.8)
Industrial Conglomerates	0.6% ↑	(96.0)	Life Sciences Tools and Services	-1.1% ↓	(89.0)
Chemicals	0.4% ↑	(90.3)	Utilities	-1.0% ↓	(92.5)

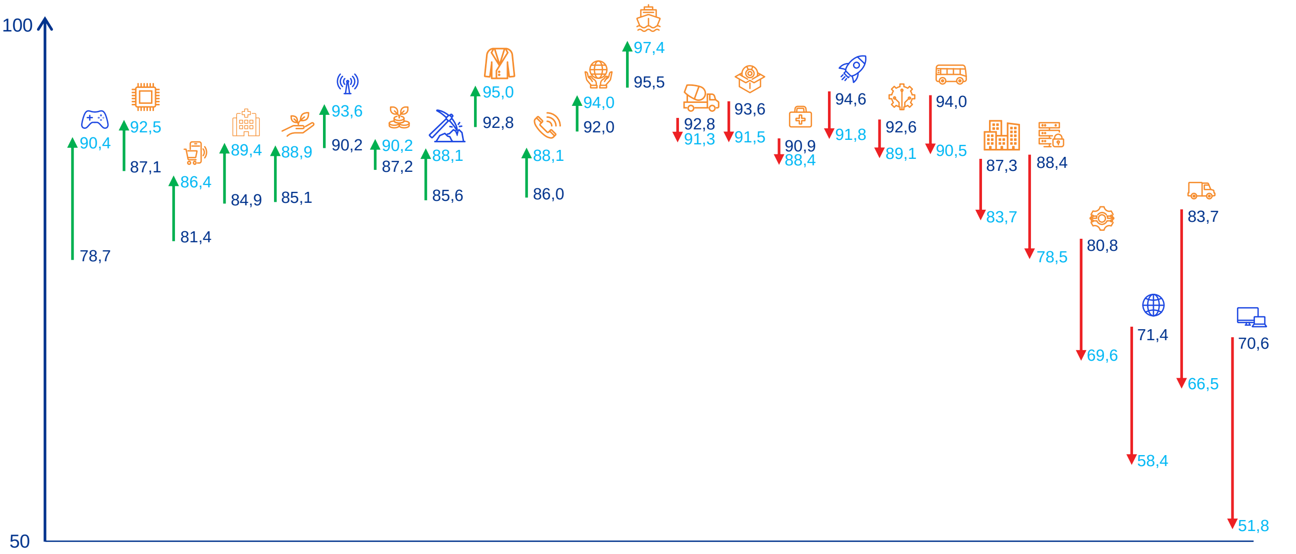
Agriculture and Husbandry	Raw Materials and Natural Resources	Financial Services	Utilities	Pharmaceuticals	Business Services
Biotechnology	Energy	Chemicals	Consumer Markets	Manufacturing	Industrial Conglomerates
Life Sciences Tools and Services	Media and Entertainment	Transportation and Logistics	Aerospace and Defense	Trading Companies and Distributors	Travel and Hospitality
Healthcare	Equity Real Estate Investment Trusts (REITs)	Infrastructure and Real Estate	Technology and Telecommunication	Food and Beverage	Packaging Products

Note:

1. % change in KPMG FPI scores in Q2 2024 over Q1 2024
2. % change in KPMG FPI scores in Q2 2024 over Q1 2024

KPMG FPI subsector moves – Europe

From March 2024 to June 2024



Strongest subsector movements

Travel and Hospitality **Casinos and Gaming**	14.9% ↑	(90.4)
Technology and Telecommunication **Semiconductors and Semiconductors Equipment**	6.2% ↑	(92.5)
Consumer Markets **Home Care and Personal Care Products**	6.2% ↑	(86.4)
Healthcare **Healthcare Centers**	5.4% ↑	(89.4)
Business Services **Environmental and Facilities Services**	4.5% ↑	(88.9)

Media and Entertainment **Digital Home Entertainment**	-26.6% ↓	(51.8)
Transportation and Logistics **Air Freight and Logistics**	-20.6% ↓	(66.5)
Energy **Coal Products**	-18.3% ↓	(58.4)
Technology and Telecommunication **Technology Distributors**	-13.8% ↓	(69.6)
Business Services **Security and Alarm Services**	-11.1% ↓	(78.5)

Digital Home Entertainment	Security and Alarm Services	Aerospace and Defense	Marine Transportation	Metals and Mining	Healthcare Centers
Air Freight and Logistics	Real Estate Development and Diversified Activities	Health Services	Distributors	Consumer Finance	Home Care and Personal Care Products
Coal Products	Transportation Infrastructure	Electronics Instruments, Components and Manufacturing Services	Telecommunication Services	Broadcasting Channels	Semiconductors and Semiconductors Equipment
Technology Distributors	Automotive	Construction and Engineering	Textiles, Apparel and Luxury Goods	Environmental and Facilities Services	Casinos and Gaming

Note:
1. % change in KPMG FPI scores in Q2 2024 over Q1 2024
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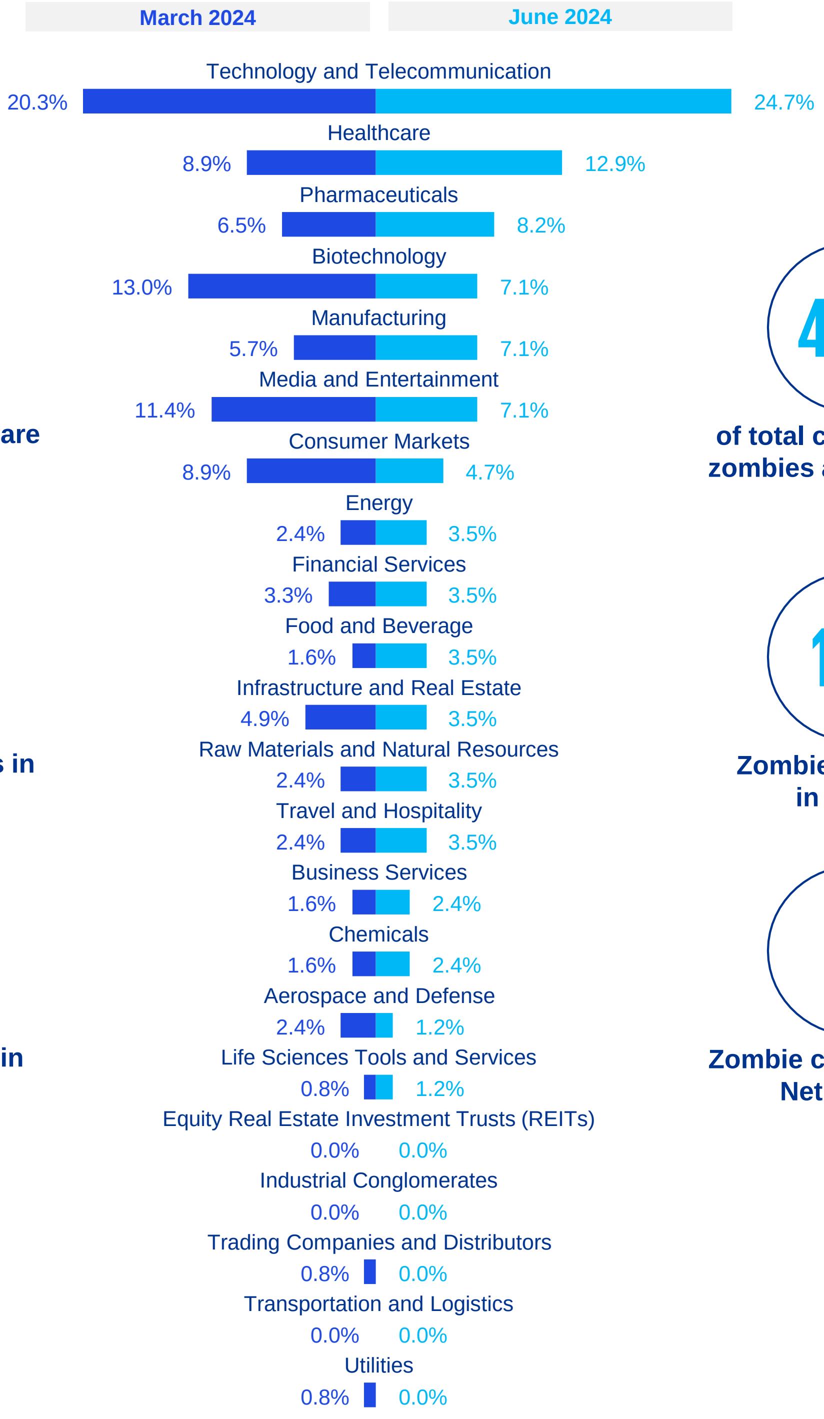
Trends of Zombies in the KPMG FPI – Europe

There are total 160 Zombie* companies in Europe which amounts to 4.1 percent of the total companies in Europe. Technology and Telecommunication sector has the largest number of zombie share which amount to 24.7 percent out of 160 Zombie European companies in June 2024 followed by other sectors. Sectors such as Transportation and Logistics and Utilities (for 1Q24) reported zero number of Zombie companies for the mentioned time-period.

Zombies



3.5%

of total companies are zombies across Europe

139

Zombie companies in Europe

1

Zombie company in the Netherlands

4.1%

of total companies are zombies across Europe

160

Zombie companies in Europe

1

Zombie company in the Netherlands

Note: 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.

1. March 2024: **(US$ million)** Cumulative market capitalisation of zombies, **%** share of zombies.

2. June 2024: **(US$ million)** Cumulative market capitalisation of zombies, **%** share of zombies.

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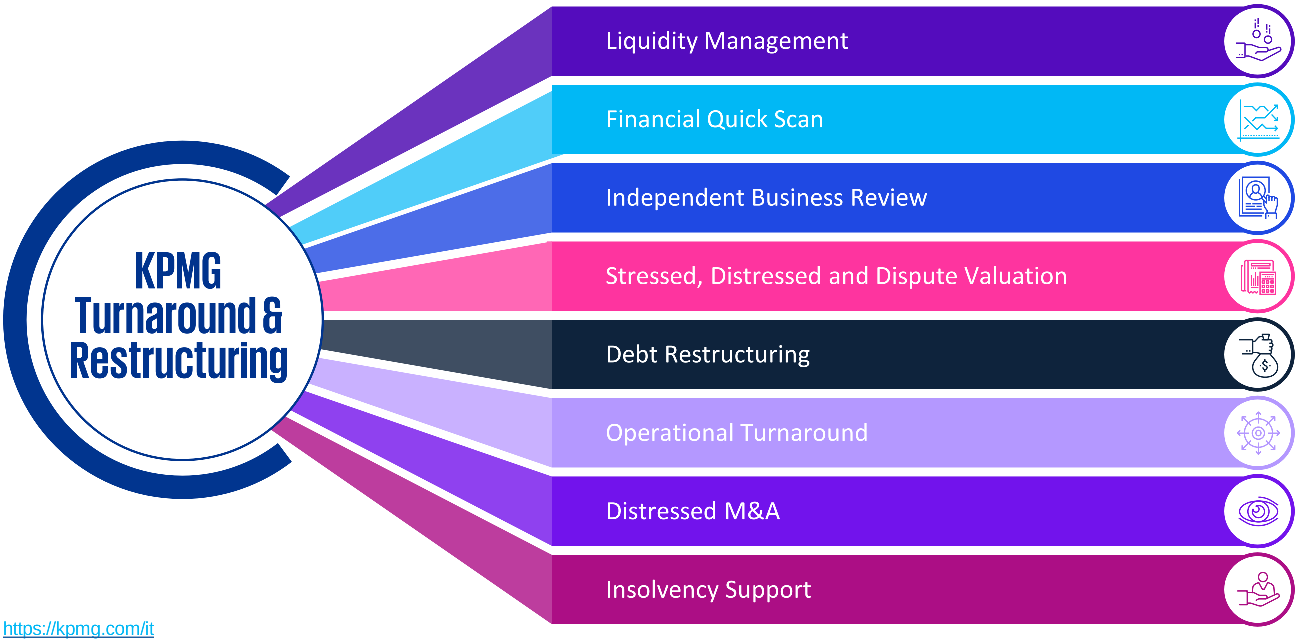

https://kpmg.com/it

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Appendix 1: Methodology and steps to compute FPI scores

The KPMG FPI is a metric used to measure a company's financial and market 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 FPI scores extracted from the S&P Capital IQ database range from 0 to 100. Scores between 85-99 are considered healthy for companies, sectors, and sub-sectors across country and regional levels. As the KPMG FPI is a logit model, a drop below 85 can very quickly lead to an index score of 0.

The data availability depends on the timing of listed companies' financial reports, to accommodate late financial filing, data is refreshed for past six quarters.

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;

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 7: Compute FPI scores for sectors, subsectors, regions, countries, etc