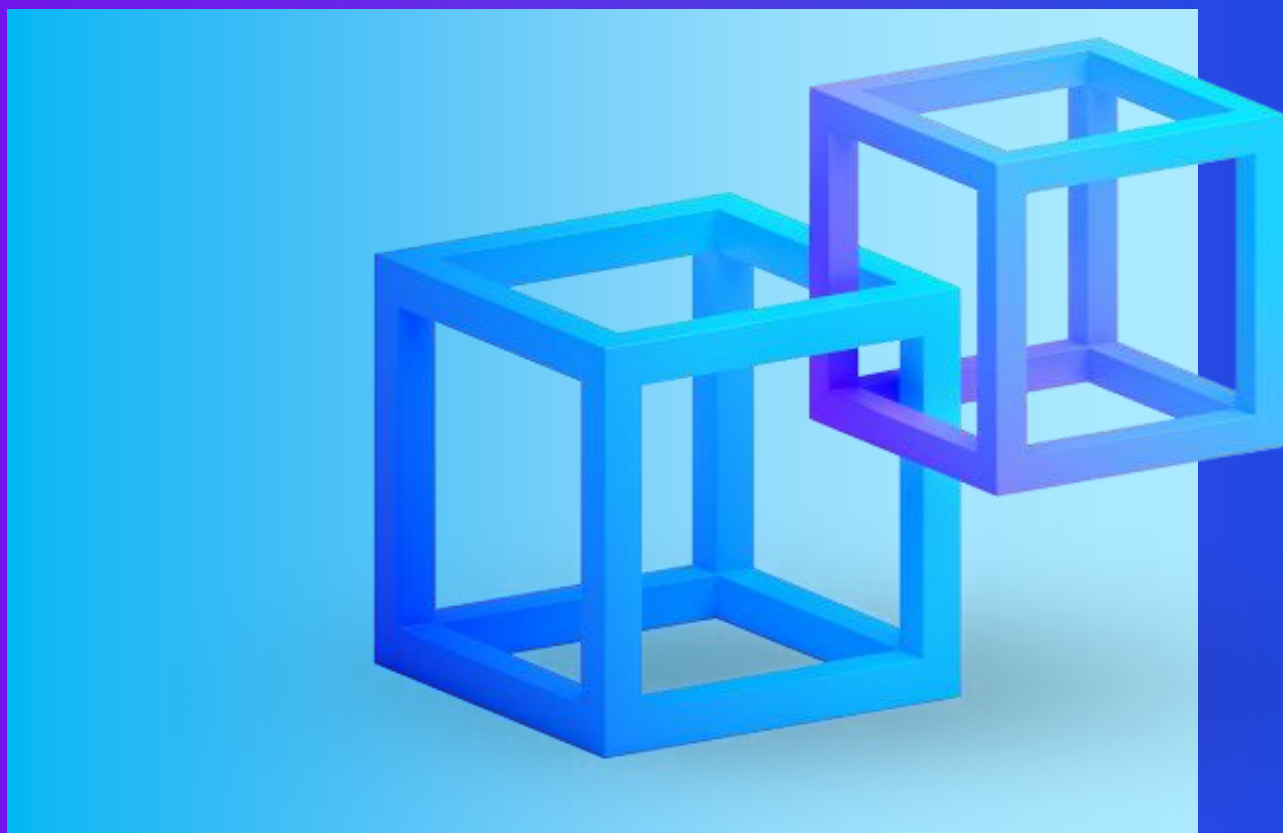




KPMG Financial Performance Index (KPMG FPI)

Volume Q3 2023 Italy

An indicator of corporate health for companies across Italy



Foreword

We are pleased to share with you the Q3 2023 edition of our quarterly KPMG Financial Performance Index(FPI) publication. We provide our insights into the changing state of corporate health across all Italian markets and sectors, following the end of the reporting season for the three months to September 2023. (KPMG FPI data is refreshed on a quarterly basis. For more information, visit the KPMG FPI [page](#)).

Between June and September 2023, we observed a marginal downturn in the financial corporate health expressed by the Italian KPMG FPI scores from 91.02 to 90.8. Out of 24 sectors and 70 subsectors analyzed, certain businesses experienced a strong increase during the three months ended September 2023: Transportation and Logistics **+2.12%** and Financial Services **+1.29%**. On the other hand, sectors such as Media and Entertainment and Business Services recorded negative results falling approximately **-3.73%** and **-3.81%** respectively.

Key Highlights	Sector movers	Italian economy	Future outlook
<ul style="list-style-type: none">Similar to other European economies, Italy also faced the economic shocks from the Russia-Ukraine war – resulting in a below par FPI score of 89 in 1Q22However, FPI scores since then indicate steady recovery on the back of several measures to promote economic recovery and resilience. These measures aimed at addressing challenges such as sluggish productivity, high structural unemployment, low labor market participation, and social and territorial disparitiesThough the overall impact on FPI is thus limited so far, specific sectors have been impacted by these developments.	<ul style="list-style-type: none">Based on the index, the sectors with the lowest FPI scores (88–90 range scores) per Q3 2023 are Business Services and Media & Entertainment. Heavily indebted incumbent, leading telecom group TIM, is looking to go even further by selling off its network assets.Only ten sectors posted q-o-q rise in FPI scores, as local economic activity continues to be stifled by gloomy external outlook and battered consumer spending amid high inflation.Biotechnology, Food & Beverage, and Transportation Services & Logistics were the top performing sectors in 3Q23, with FPI scores of 97 or above each.	<ul style="list-style-type: none">European Central Bank’s recent interest rate rises - designed to battle persistent eurozone inflation - is estimated to cost the country an additional €15 billion in annual debt servicing costsItaly’s public finances remains among the most precarious in the EU region. Further, debt stabilization is identified as another key area of concern for investors. According to Eurostat, the country has second highest public debt-to GDP ratio (142.4 percent as of June 2023, up from 140.9% in March 2023) in the Eurozone	<ul style="list-style-type: none">Slower economic growth is anticipated in 2024; however, easing inflationary pressures, a gradual increase in wages and EU-funded investment should underpin a modest expansion in domestic demand over medium-termItalian government has trimmed its annual growth forecasts and hiked budget deficit targets amid rising interest rates environmentEconomic activity will be held back by interest rates in the euro zone remaining at a record high until at least mid-2024 and a subdued external environment.Consequently, the country FPI scores over the next few months are expected to carry downside risks arising from intensifying geopolitical tensions, weakening of Chinese economy and tighter credit conditions

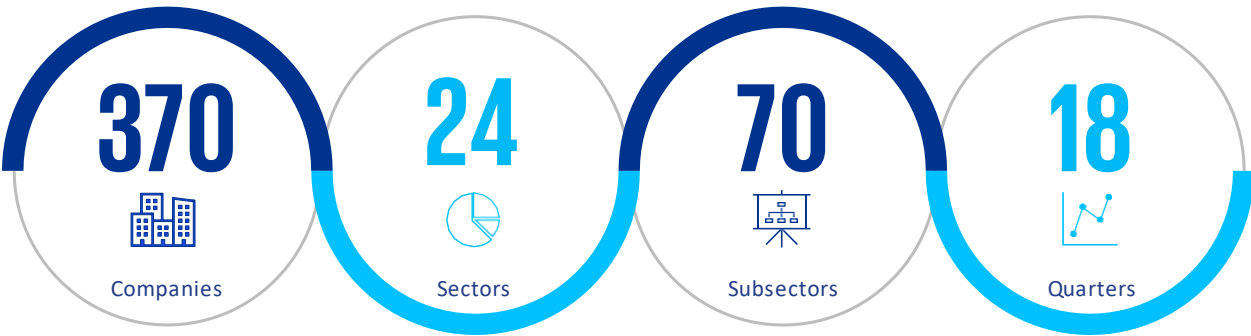
About KPMG FPI

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 analyze the KPMG FPI score movements of publicly listed companies in Italy (following the reporting season of full year and half year results) to draw insights into corporate health across the Italian 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.

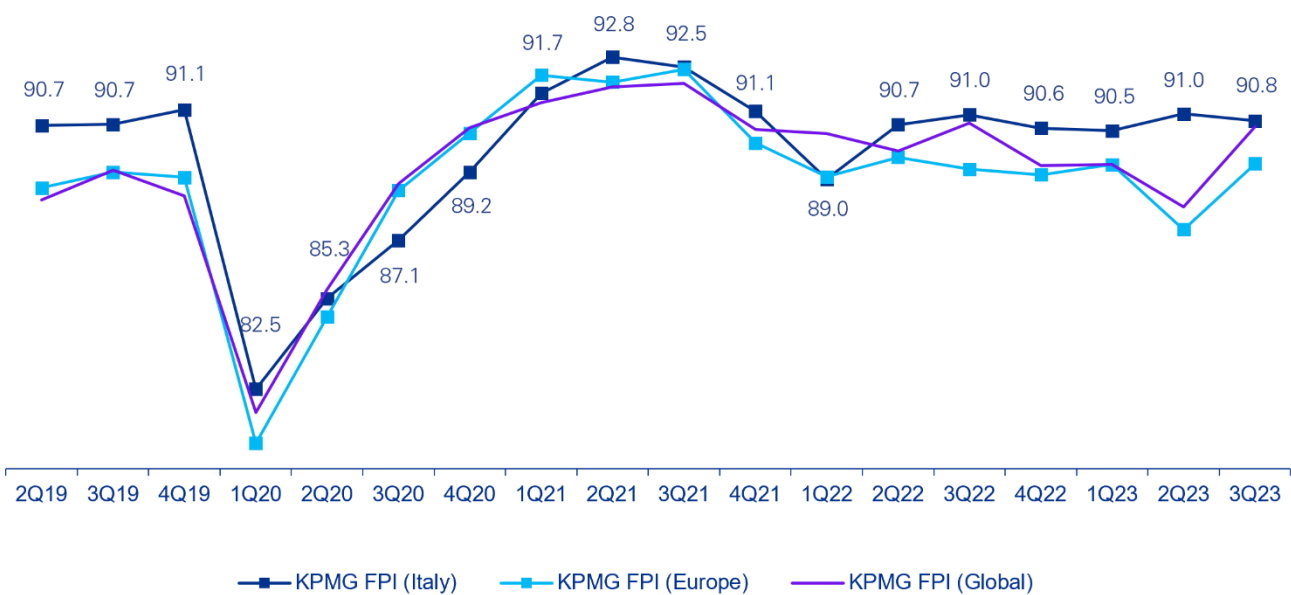
Italy FPI performance comparison

KPMG Financial Performance Index (KPMG FPI Italy) analysed across.



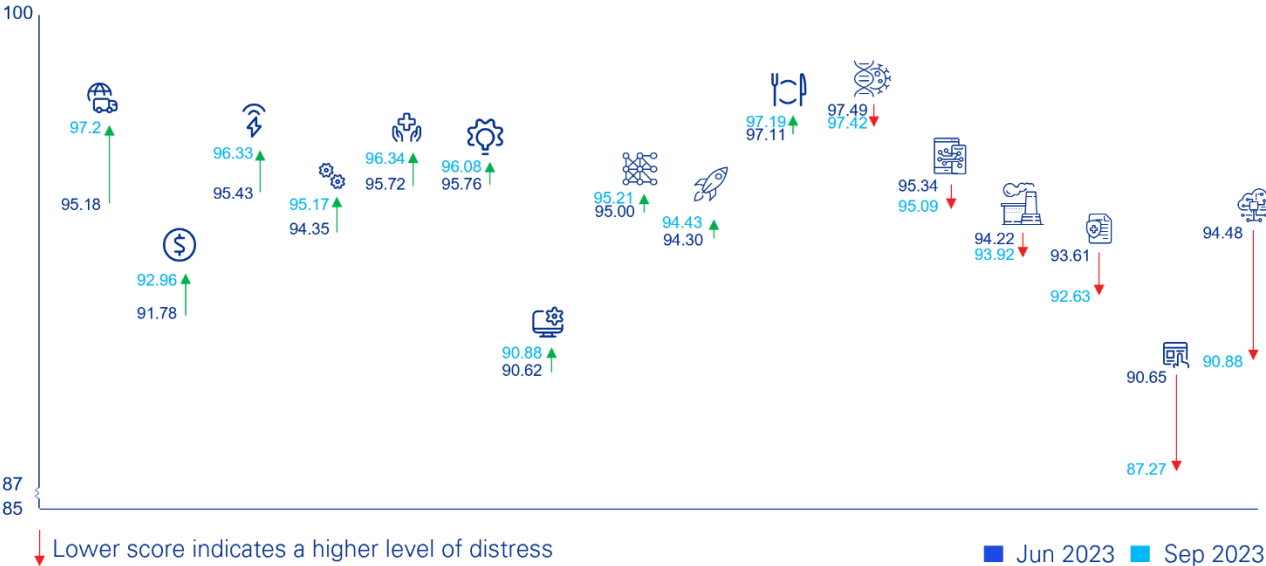
Movement of KPMG FPI scores across Italy

KPMG FPI score of companies headquartered in Italy marginally decreased from 91.02 in June 2023 to 90.80 in September 2023

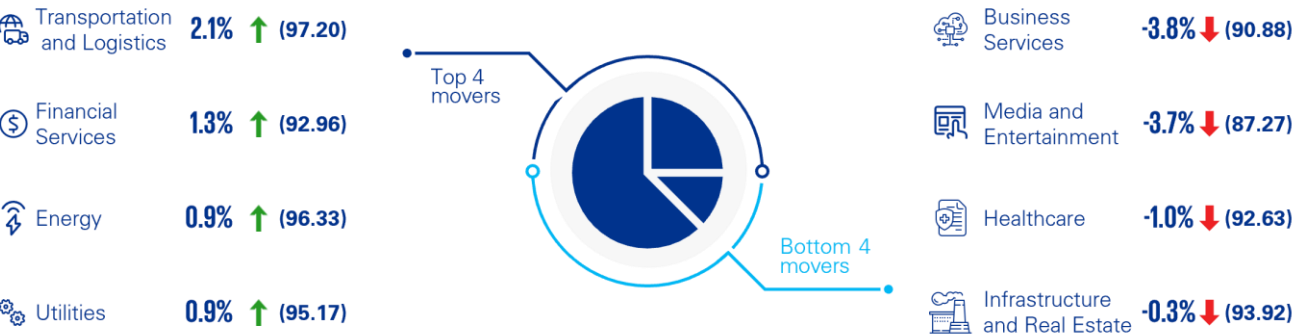


KPMG FPI quarterly sector movements

From June 2023 to September 2023



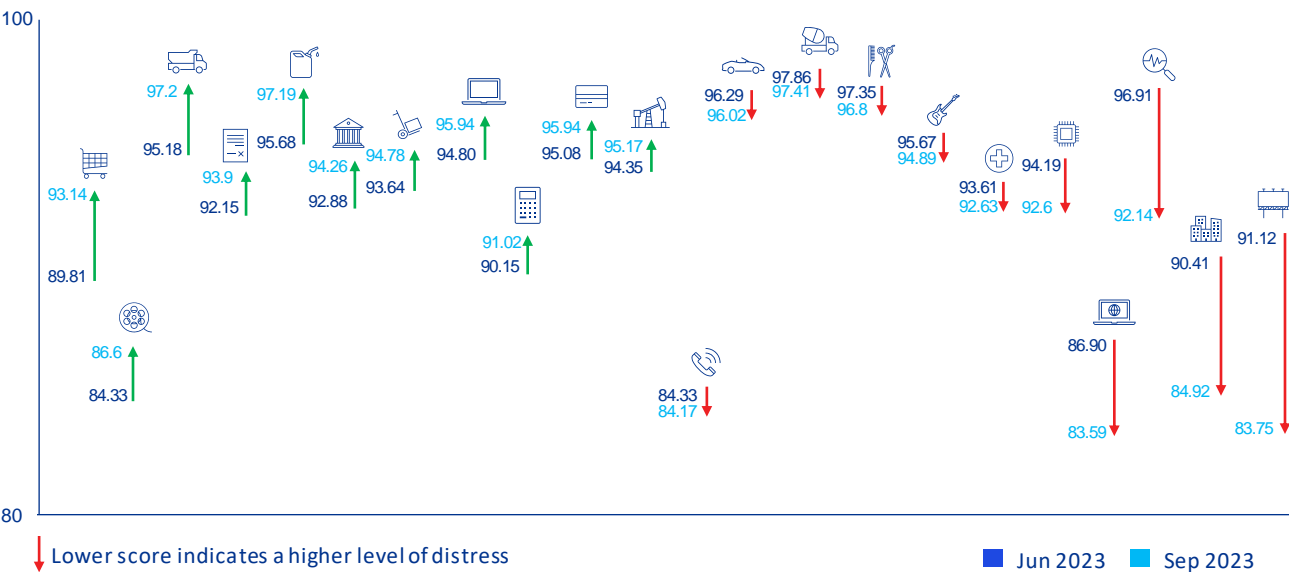
Strongest and weakest sector outperformers



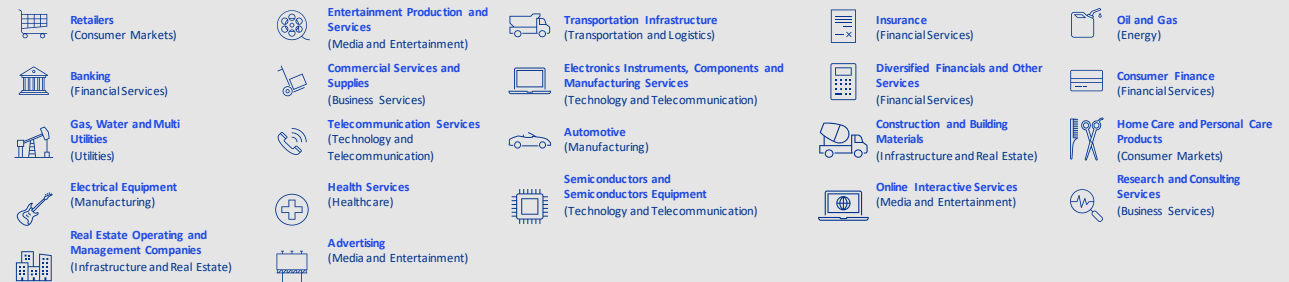
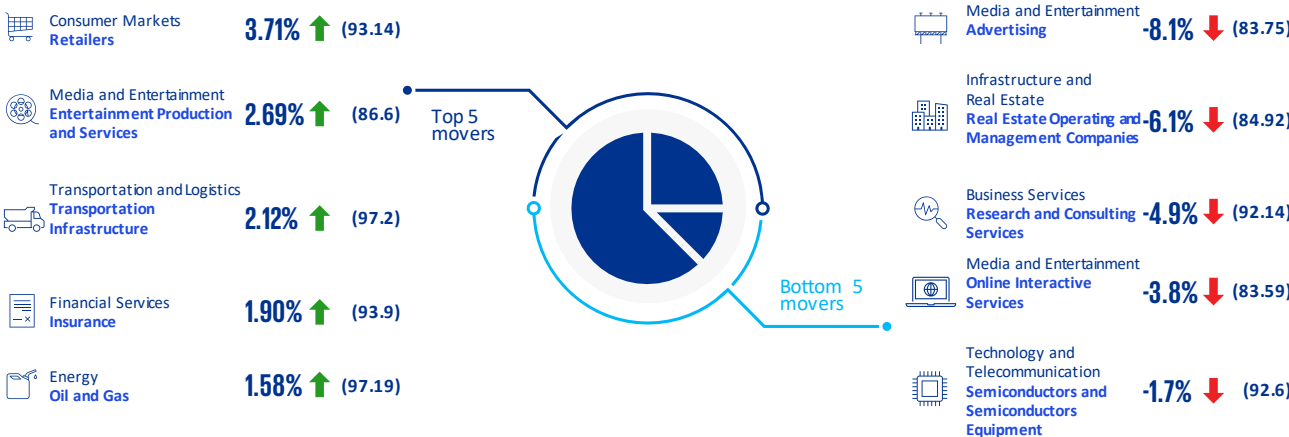
Note:
1. % change in KPMG FPI scores in Q3 2023 over Q2 2023 (Q3 2023 KPMG FPI score)
2. % change in KPMG FPI scores in Q3 2023 over Q2 2023 (Q3 2023 KPMG FPI score).

KPMG FPI quarterly subsector movements

From June 2023 to September 2023



Strongest and weakest subsector outperformers

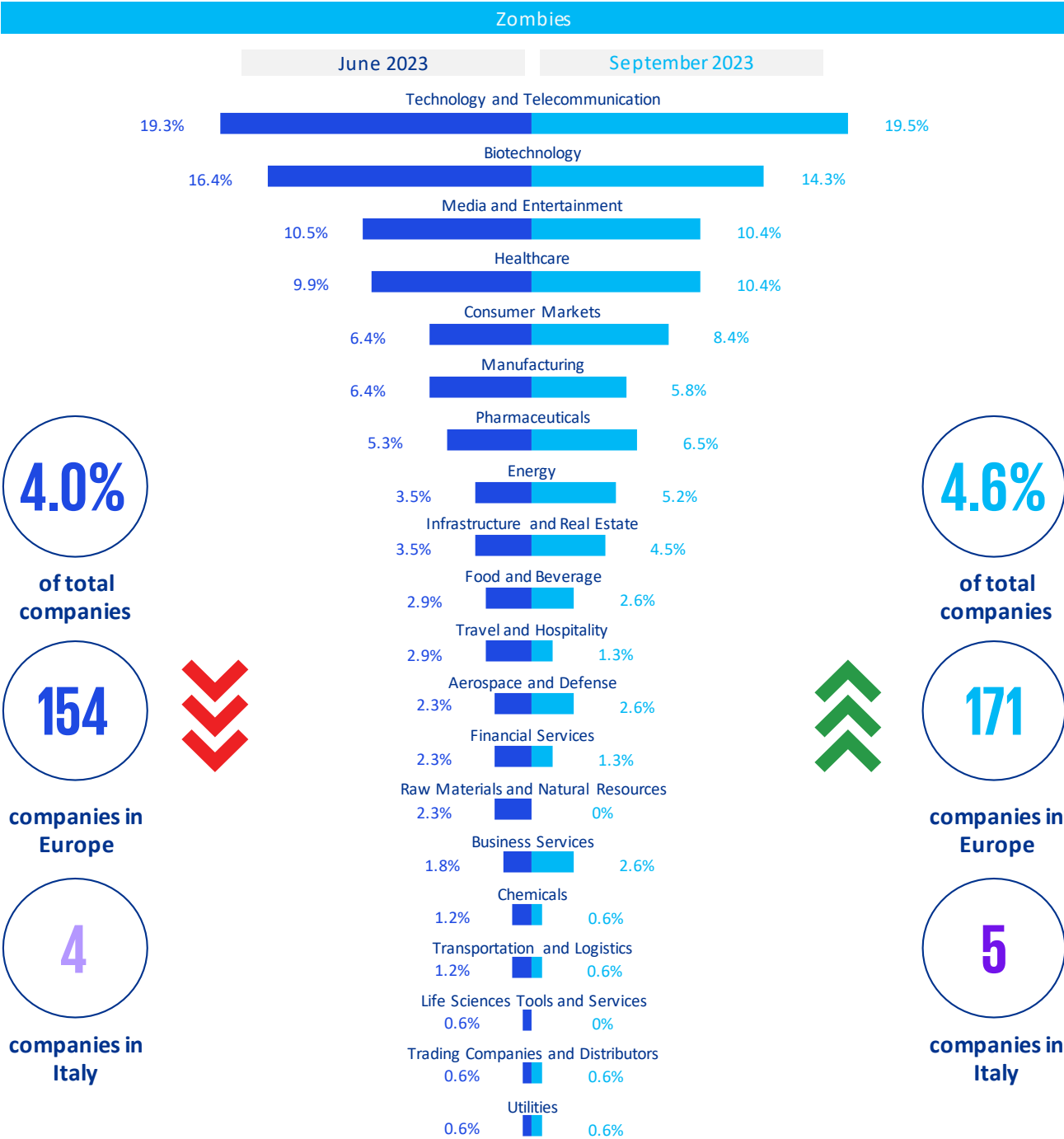


Note:

1. % change in KPMG FPI scores in Q3 2023 over Q2 2023 (Q3 2023 KPMG FPI score)
2. % change in KPMG FPI scores in Q3 2023 over Q2 2023 (Q3 2023 KPMG FPI score).

Zombies across Europe in the KPMG FPI¹

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) Zombies have been calculated across Europe including Italy.

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

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

(*) These sectors contain zombie companies from Italy.

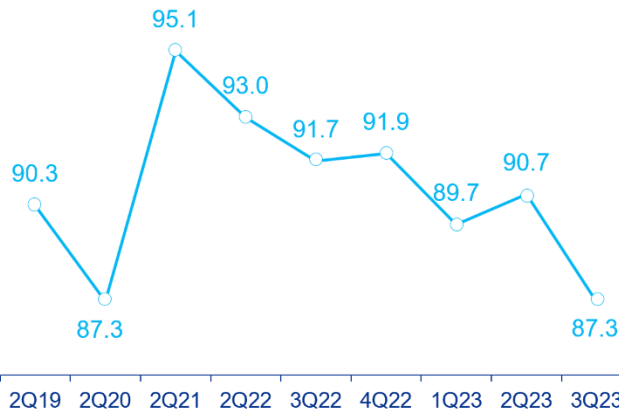
KPMG FPI trends across key industries for the Italian economy

3Q23 turned out to be a good quarter for Italian economy as validated by the FPI scores of 10 of the 16 key industries registering a q-o-q growth on the back of a cooling inflation and relatively stable trading environment. Post a turbulent post-pandemic environment, onset of rightwing coalition government in 2022 brought a much-needed stability through fiscal measures such as anti-inflation pact with retailers and producers of household essentials. FPI score for Italy is likely to witness a marginal drop over the next few months as the economy grapples with geopolitical tensions (amid the ongoing Israel-Hamas war) and the resulting macroeconomic headwinds (such as soaring fiscal deficit and higher than average inflation levels)

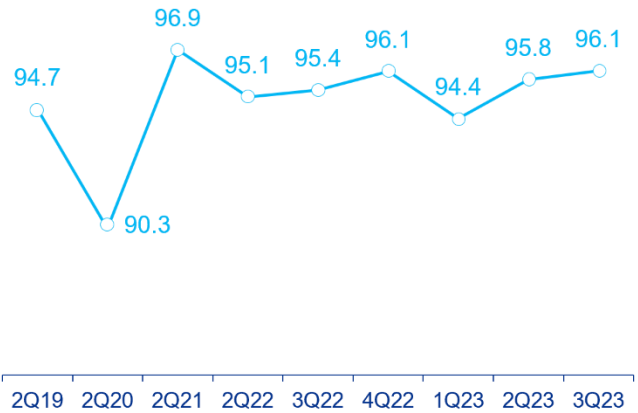




Media and Entertainment



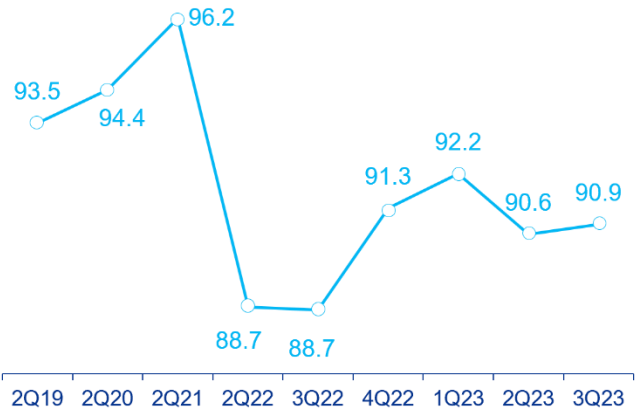
Consumer Markets



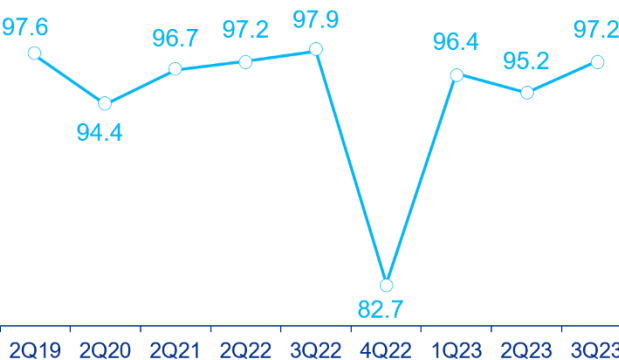
Manufacturing



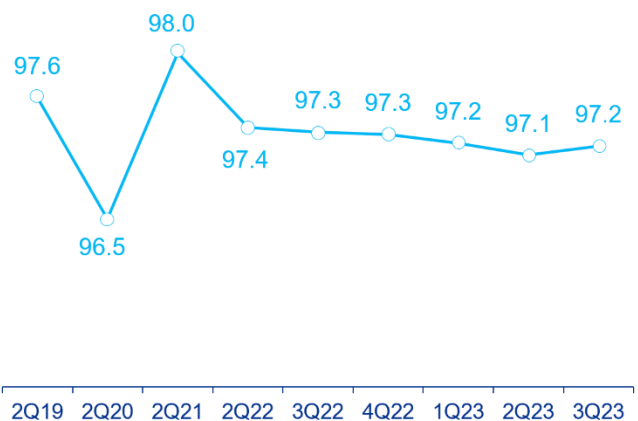
Technology and Telecommunication



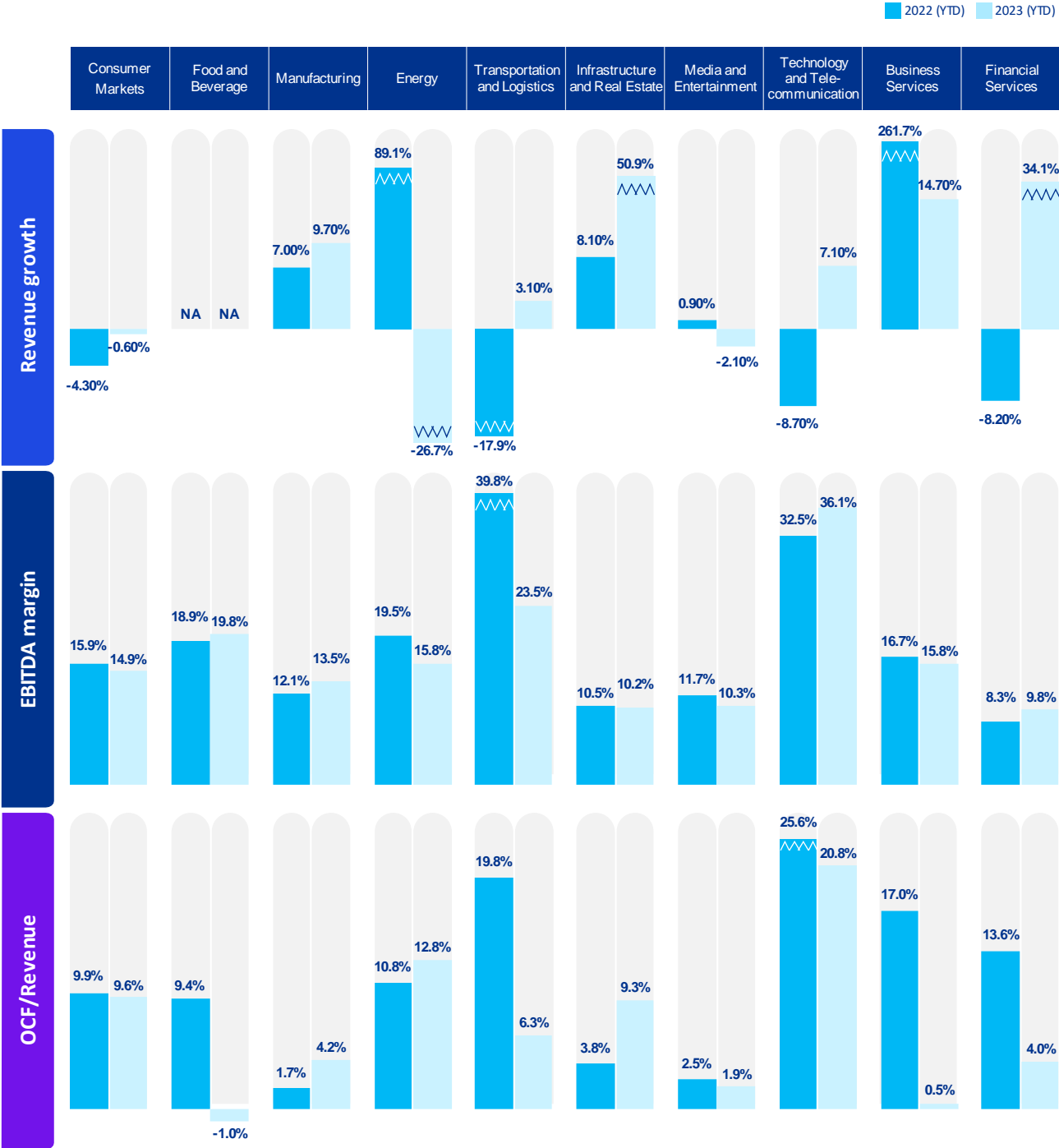
Transportation and Logistics



Food and Beverage



Profitability



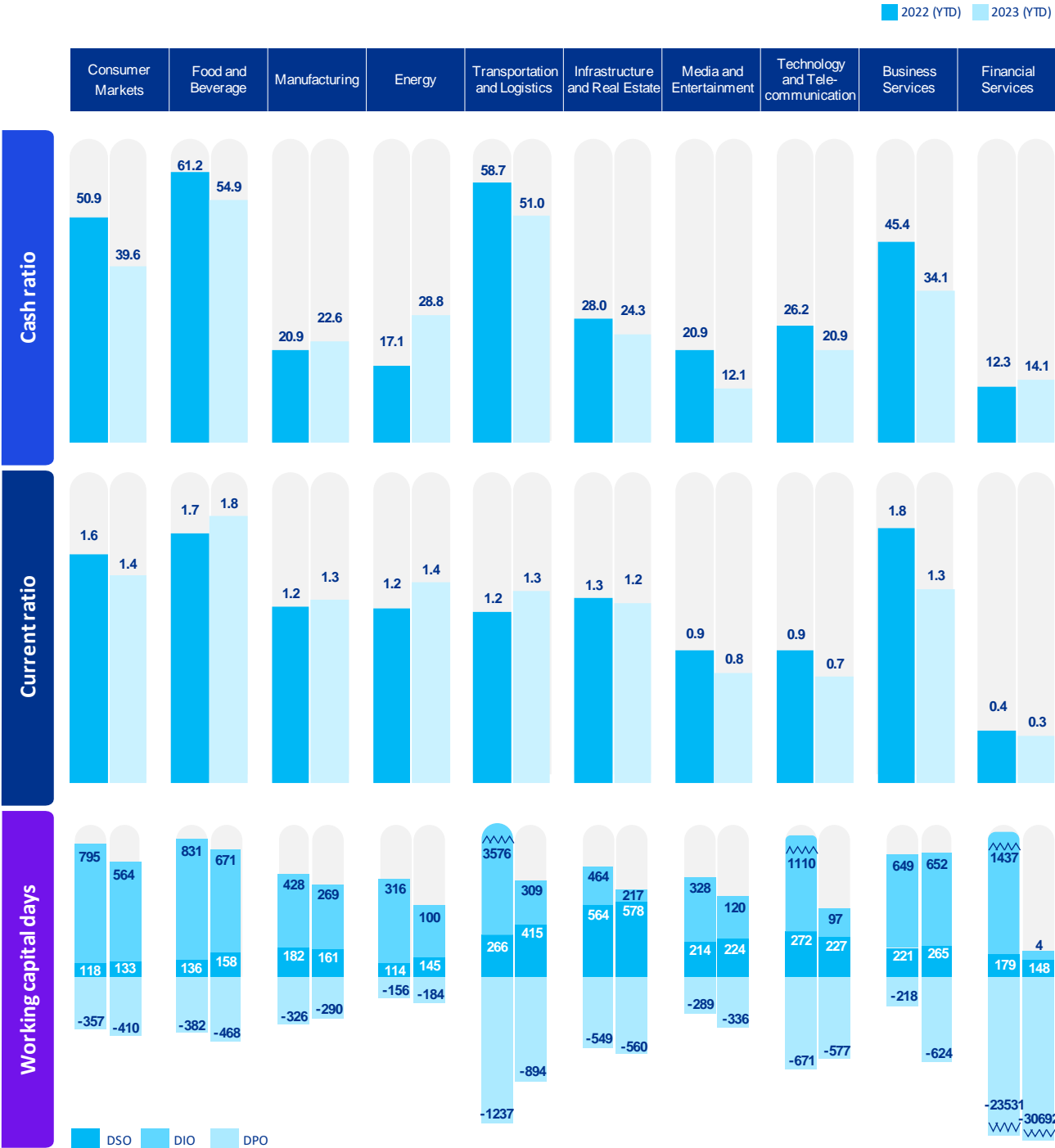
Positive Growth in revenues across almost every sector in 2023, after last year's weak performance

Except for Energy influenced by the fluctuations of utility prices

EBITDA Margin coupled with cash flow from operating performance show stable profitability at high levels

Most companies which rapidly adapt their fixed cost base are demonstrating a good resilience in the period of recovery from pandemic issues

Note: The ratios have been calculated for the first 3 quarters of 2022 and 2023



Robust liquidity generation in Food & Beverage and Consumer Markets compared to Financial Services

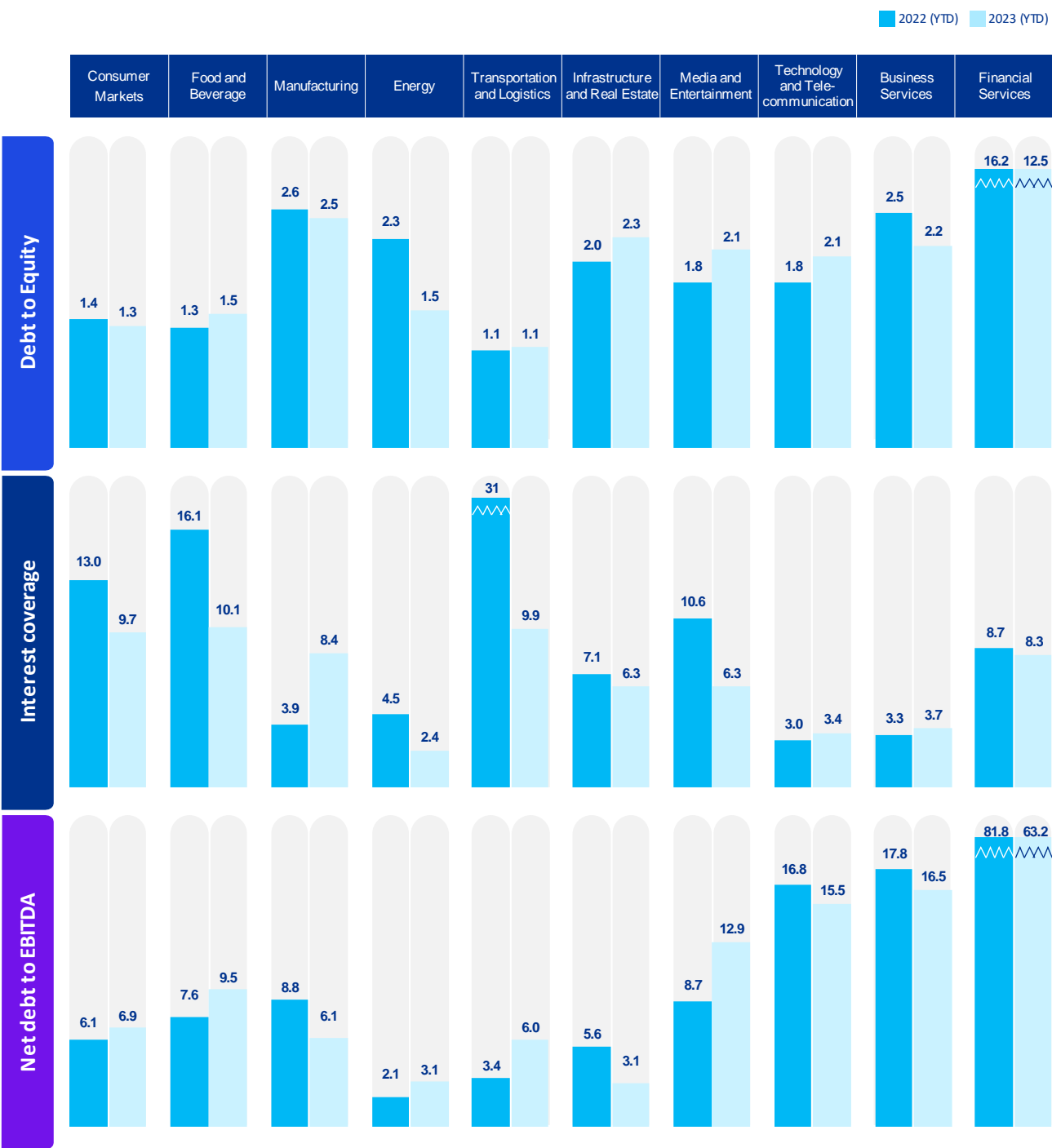
Both industrial sectors reported cash and current ratios higher than Financial Services, signaling the ability to cover short-term liabilities

Note: The ratios have been calculated for the first 3 quarters of 2022 and 2023

Steady dynamics of working capital for most sectors

Length of cash conversion cycle show significant differences from the comparison with various industries. Optimizing trade working capital can release further cash to fund business operations for many companies within each sector

Leverage



Moderate leverage level (average D/E around 2x)
First 9 months period in 2023 is demonstrating a general slight **deleveraging trend**, in terms of interest coverage ratio improvement

Higher net financial position/EBITDA for Business and Financial Services
In both businesses companies make use of larger funding and their capital structure has higher leverage due to the type of business model compared to industrial sectors

Note: The ratios have been calculated for the first 3 quarters of 2022 and 2023

Contact us



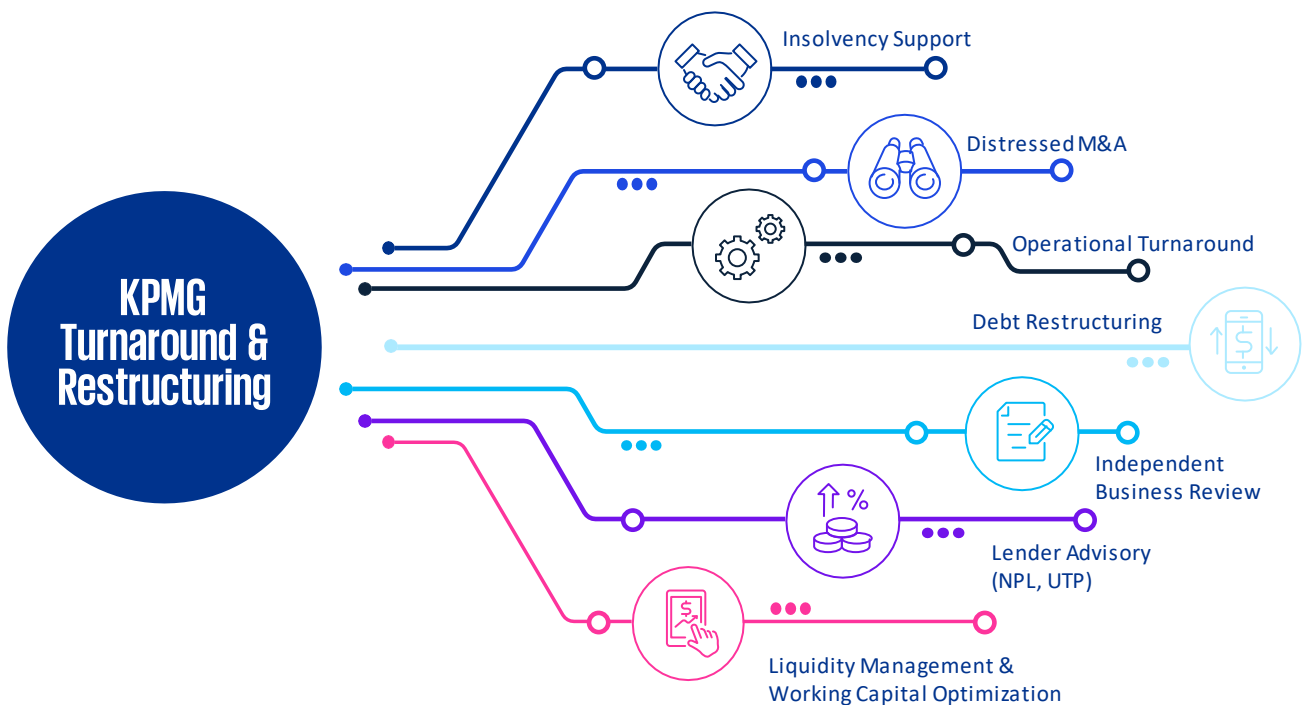
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