



Exchange Rate Fluctuations and Performance of Listed Pharmaceutical Companies in Nigeria

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Introduction

The pharmaceutical sector is one of the vital sectors contributing to the Nigerian economy's growth. Sadly, the performance of this sector is hampered by the country's reliance on imported Active Pharmaceutical Ingredients (APIs) making the sector vulnerable to international trade dynamics, particularly exchange rate fluctuations. Fluctuations in exchange rates can affect companies' performance especially companies involved in international trade. Existing studies have examined the effects of exchange rate volatility on the financial performance of conglomerate firms and multinational companies in Nigeria. However, the pharmaceutical industry's unique characteristics, such as its heavy reliance on imported APIs, warrant investigating the effect of exchange rate fluctuations on its financial performance.

The study therefore investigated how exchange rate fluctuations affect performance of listed pharmaceutical companies in Nigeria specifically focusing on how exchange rate fluctuations affect the revenue growth, Net Profit Margin (NPM) and Return on Capital Employed (ROCE) of these companies.

Methodology

An ex-post facto research design was adopted by the study where panel data covering a period of 10 years (2014 to 2023) were gathered and analyzed to examine the extent to which exchange rate fluctuations affects the performance of listed pharmaceutical companies in Nigeria. The population and sample size include all 6 pharmaceutical firms listed on the Nigerian Exchange Group as of December 2023. Data were collected from published financial reports of these companies as well as the Central Bank of Nigeria's updates on exchange rates, inflation, and interest rates. The data were analyzed using both descriptive and inferential statistical analytical tools. Specifically, the panel regression analyses were carried out to test the effect of exchange rate fluctuations on the adopted performance metrics.

Results and Discussions

The results of the regression analysis showed that, at a 5% significance level, exchange rate fluctuations have a significant effect on Revenue Growth and NPM. Conversely, exchange rate fluctuations were found to have an insignificant effect on ROCE. Furthermore, the analysis revealed a positive relationship between exchange rate fluctuations and all the performance metrics (revenue growth, NPM and ROCE) adopted by the study. The F-statistic test revealed that exchange rate fluctuation is a significant predictor in explaining changes in the Revenue Growth, NPM and ROCE in Nigerian listed pharmaceutical companies, with a p-value of 0.002241, which is below the 5% significance level.

Conclusion

The findings of the study suggest that exchange rate fluctuations have a notable effect on the companies' financial health influencing their ability to generate revenue, maintain profitability and achieve return on capital employed. Pharmaceutical companies in Nigeria are hereby advised to develop and implement risk mitigation measures to alleviate adverse effects of exchange rate fluctuations on their performance. Revenue diversification and hedging strategies could also be employed to reduce exposure to exchange rate volatility.

Keywords: Exchange Rate Fluctuations, Revenue Growth, Net Profit Margins, Return on Capital Employed