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THE EFFECT OF CAPITAL STRUCTURE AND PROFITABILITY ON THE COMPANY'S VALUE IN PT KALBE FARMA TBK FOR THE PERIOD 2015-2024

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ABSTRACT

This study aims to analyze the effect of capital structure and profitability on firm value at PT Kalbe Farma Tbk during the 2015-2024 period. Capital structure is measured using the Debt-to-Equity Ratio (DER), profitability is measured using Return on Equity (ROE), while firm value is measured using Price to Book Value (PBV). This study employs a quantitative approach with an associative analysis method based on ten years of secondary time-series data obtained from the company's annual financial statements published through the Indonesia Stock Exchange. The data analysis techniques include classical assumption tests (normality, multicollinearity, heteroscedasticity, and autocorrelation), multiple linear regression analysis, hypothesis testing (t-test and F-test), and the coefficient of determination test, processed using SPSS software. The results show that, partially, capital structure has no significant effect on firm value (t = -1.222; sig. = 0.225), whereas profitability has a positive and significant effect on firm value (t = 3.614; sig. = 0.000). Simultaneously, capital structure and profitability significantly affect firm value (F = 6.842; sig. = 0.004), with the model explaining 19.2 percent of the variation in firm value (R Square = 0.192). These findings indicate that profitability is a far more dominant determinant than capital structure in shaping firm value at PT Kalbe Farma Tbk, suggesting that management should prioritize improving earnings efficiency to enhance market valuation, without neglecting a conservative capital structure policy as a safeguard for long-term financial stability.

Keywords: capital structure; profitability; firm value; debt to equity ratio; return on equity; price to book value

INTRODUCTION

The development of the era of economic globalization has encouraged the public, especially capital market players, to be more critical in observing financial information published by public companies. Financial statements are one of the most important sources of economic information because they reflect the condition and performance of the company in a certain period, so that it is the main consideration for investors, creditors, management, and the wider community in making decisions. The Company is required to present financial statements in a transparent, accurate, and complete manner so that the information contained therein can be optimally utilized by stakeholders. In the midst of increasingly complex capital market dynamics, a company's ability to manage its financial resources, both from debt and its own capital, is the main determinant of long-term sustainability and competitiveness. This condition makes the study of capital structure and profitability an issue that continues to be relevant in the contemporary financial management literature. This relevance is further strengthened considering that these two variables, both theoretically and empirically, are believed to be closely related to company value as an indicator of long-term success. Therefore, a deep understanding of the relationship between capital structure, profitability, and company value is an urgent need, both for academics and practitioners in the business world.

The value of the company is the ultimate goal that financial management wants to achieve, because it reflects the level of prosperity that shareholders will receive if they sell their holdings in the capital market. The higher the value of the company, the greater the prosperity that will be enjoyed by the owner, so this is the main attraction for investors in investing their capital. One of the commonly used proxies to measure a company's value is Price to Book Value

(PBV), which is a ratio that compares the stock market price to the book value per share. This ratio was chosen because it is able to describe market perception of the company's future growth prospects, not only based on historical performance. When the PBV is above one, the market assesses that the company has good prospects so that its share price is trading above its book value. On the other hand, a PBV that is below one indicates that there is market doubt about the company's ability to create added value for shareholders. Thus, the movement of PBVs over time is an important reflection of how the market responds to the capital structure policies and profitability performance carried out by the company's management.

Globally, the pharmaceutical industry is showing significant growth and is one of the strategic sectors in the world economy. Based on a report by The Business Research Company, the global pharmaceutical drugs market is projected to grow from around USD 1,199.86 billion in 2023 to USD 1,267.05 billion in 2024, with a compound annual growth rate (CAGR) of 5.6 percent. This growth is driven by increased public health awareness, lifestyle shifts, and increasing investment in research and development of pharmaceutical products in various countries, including developing countries such as Indonesia. World Health Organization data also reinforces the urgency of this sector, where non-communicable diseases account for about 41 million deaths each year, or equivalent to 74 percent of total global deaths, thus driving continued demand for drugs for chronic diseases. The phenomenon of the aging of the world's population is also a driving factor in the long-term demand for pharmaceutical products, especially for the treatment of degenerative diseases such as diabetes and cardiovascular disorders. This global condition confirms that the pharmaceutical industry is not only a defensive sector in the midst of economic turmoil, but also a growth sector that offers long-term investment opportunities. However, this huge market growth potential does not necessarily guarantee that every pharmaceutical company will be able to translate it into a consistent increase in corporate value in the capital market.

At the national level, Indonesia's pharmaceutical industry has also shown fluctuating growth dynamics over the past decade. Data from the Central Statistics Agency noted that the chemical, pharmaceutical, and traditional medicine industry subsectors had grown rapidly to 9.4 percent in 2020 and 9.6 percent in 2021, in line with the surge in demand for medicines and health products during the Covid-19 pandemic. However, this growth slowed sharply to only 0.7 percent in 2022 and 0.1 percent in 2023, before squirming again with growth of 8.01 percent in the second quarter of 2024 according to the Ministry of Industry. The Association of Indonesian Pharmaceutical Companies noted that the potential of the national pharmaceutical market has penetrated the range of IDR 110 trillion to IDR 120 trillion in 2022, with the export value of the pharmaceutical and natural ingredient drug industries reaching around IDR 9.9 trillion from January to September 2024. These growth fluctuations reflect that while the pharmaceutical industry has a strong demand base, the sector's performance remains vulnerable to external shocks, including the normalization of public consumption patterns post-pandemic and pressure on imported raw material costs. Among the eleven pharmaceutical issuers listed on the Indonesia Stock Exchange, PT Kalbe Farma Tbk occupies the leading position with the largest total assets of IDR 28.8 trillion as of September 2024, making it the most relevant representation to examine how the dynamics of capital structure and profitability affect the value of companies in this sector. The macro data is an important foundation for understanding the external context that influences the funding decisions and profit performance of pharmaceutical companies in Indonesia during the study period.

Indonesia's post-pandemic pharmaceutical industry faces a number of strategic issues that have the potential to affect the company's value, including PT Kalbe Farma Tbk. Dependence on imported raw materials makes pharmaceutical companies vulnerable to fluctuations in the rupiah exchange rate and global trade policies, thus potentially increasing production costs if not balanced with adequate operational efficiency. Increasingly fierce competition, both from local and multinational pharmaceutical companies, has also encouraged companies to continue to innovate products and expand markets that require large funding and the right capital structure decisions. In addition, regulatory changes in the health sector, such as the expansion of the National Health Insurance program and the generic drug pricing policy, have also affected the level of profitability of the pharmaceutical industry as a whole. The conditions of Large-Scale Social Restrictions that have been implemented by the government during the pandemic have also had a layered impact on a number of business sectors, including companies listed on the Indonesia Stock Exchange. In this context, Kalbe Farma is required to balance the use of debt, self-management of capital, and profit increase strategies in order to maintain strong financial performance amid changes in the dynamic external environment. This series of structural challenges makes the study of capital structure and profitability even more relevant to be studied empirically in the object of this research.

The capital structure is the composition of the company's funding derived from a combination of debt and own capital, which is used to finance operational activities and long-term investments. Decisions regarding capital structure are very important because they are directly related to the level of financial risk, capital costs, and the ability of companies to maintain their financial stability in the midst of business competition. The trade-off theory explains that the company will try to determine the optimal capital structure by balancing the benefits of tax savings on the use of debt (tax shield) with the financial distress cost that may arise if the proportion of debt is too high. As long as the company is below the optimal point, the addition of debt has the potential to increase the value of the company, but if the proportion of debt exceeds this point, the risk of bankruptcy and agency costs will increase, thereby lowering the value of the company. An international study by Agyei et al. (2020) that examined trade-off theory and pecking order theory in companies in Ghana found that the two theories complement each other in explaining the funding behavior of companies, depending on the conditions of profitability and capital market access they have. Demiraj et al. (2022) in their study of the European tourism industry also emphasized that the relationship between capital structure and profitability is contextual, so its influence on company performance and value can differ between sectors and between countries. These findings are a relevant conceptual basis for analyzing the pattern of PT Kalbe Farma Tbk's capital structure during the period 2015 to 2024.

Profitability is the main indicator that reflects the company's ability to generate profits from its operational activities and asset management. A high level of profitability indicates that management is able to manage resources efficiently, while low profitability can indicate problems in cost control or a decline in the company's operational performance. Return on Equity (ROE) was chosen as a profitability proxy in this study because the ratio specifically measures the company's ability to generate net profit from the capital invested by shareholders, so it is relevant to the interests of investors. According to signaling theory, a high level of profitability serves as a positive signal to the market regarding the company's future prospects, which in turn can increase investor confidence and drive up stock prices. Maulana and Mediawati (2022) in their research found that profitability, company size, and dividend policy affect company value through the intervening mechanism of capital structure, which confirms the close relationship between the three variables. The consistency of these findings in various industry contexts reinforces the urgency to re-examine the relationship between profitability and company value in the pharmaceutical industry, especially in companies as large as PT Kalbe Farma Tbk which have a long track record in the Indonesian capital market.

Empirical studies on the influence of capital structure and profitability on company value have been widely conducted in various sectors in Indonesia, but the results still show inconsistencies. Rachmawati, Handayani, and Karim (2022) on pharmaceutical companies listed on the Indonesia Stock Exchange for the 2016-2020 period found that both profitability and capital structure had a significant effect on company value, while company size did not show a significant influence. In contrast, Dewi, Utami, Jundrio, Ardiansyah, and Andri (2024) who researched the pharmaceutical subsector for the 2017-2021 period also found a significant influence of capital structure and profitability on company value, but with a different amount of coefficient compared to previous research. Zahrani, Hidayat, and Supardi (2024) who examined the pharmaceuticals and healthcare sectors for the 2019-2022 period also emphasized the influence of profitability, liquidity, and capital structure on company value, although the contribution of each variable varied between sample companies. On the other hand, research in the non-pharmaceutical sector such as those conducted by Krisnando and Novitasari (2021) on consumer goods companies and Sinaga, Lie, Inrawan, and Nainggolan (2022) on pulp and paper companies shows that the influence of capital structure on company value is not always consistent and significant, depending on the characteristics of the sector and the observation period used. The inconsistency of the results of this previous study suggests that the relationship between capital structure, profitability, and company value is contextual, requiring retesting on more specific research objects and periods. This condition underlies the need for further research on PT Kalbe Farma Tbk as the largest pharmaceutical company representative in Indonesia over the last ten years.

Research on non-pharmaceutical sectors has also enriched the empirical evidence on the varying effects of capital structure and profitability on company value. Agustin Ekadjaja (2021) in manufacturing companies found that profitability, liquidity, and company size have a significant effect on company value, while Listyawati and Kristiana (2021) in the financial sector found that ROE and DER together affect company value. Magdalena and Setyawan (2023) in manufacturing companies for the 2018-2021 period found that ROA, EPS, and DER had a positive and significant effect on PBV, while Sofiani and Siregar (2022) in the food and beverage sector found that ROA had a significant effect on company value even though DAR did not show a significant influence. Rachmawati, Murdiyanto, and Rahmawati (2022), Novianti, Barnas, and Djatnika (2022), Kresna Wibowo, Fadjrih Asyik, and Bambang (2021), as well as Hidayat and Khotimah (2022) and Sjarif and Febriyanti (2023) added cross-sector evidence that capital structure and profitability can play a direct role or as intervening variables on company value or stock prices, depending on the characteristics of the industry being studied. This variety of cross-sectoral findings further confirms that the relationship between capital structure, profitability, and company value is highly contextual, so that specific testing on PT Kalbe Farma Tbk is an important contribution to the existing literature.

PT Kalbe Farma Tbk is a company engaged in the development, production, and trading of pharmaceutical preparations, including medicines and consumer health products, which was established on September 10, 1966. The company, which is now headquartered in Gedung Kalbe, Jakarta, has transformed from a home-based business in a garage in North Jakarta to one of the largest healthcare companies in Southeast Asia, with more than forty-nine subsidiaries and fourteen international standard production facilities. Kalbe Farma's shares have been listed on the Indonesia Stock Exchange with the code KLBF since 1991, making it one of the pharmaceutical issuers with the longest track record in the Indonesian capital market. With the support of approximately sixteen thousand employees spread across seventy-one branches throughout Indonesia, the company has consistently maintained its position as a market leader in the national pharmaceutical industry. The scale of the business and its long track record make Kalbe Farma a representative research object to observe how capital structure policies and profitability achievements affect market perception of the company's value in the long term. These relatively stable but still dynamic characteristics of the company provide a rich empirical context to test the consistency of capital structure theory and profitability at the scale of large companies in Indonesia's healthcare sector.

Empirical data shows that during the period 2015 to 2024, PT Kalbe Farma Tbk experienced fluctuations in these three research variables. The company's Debt to Equity Ratio (DER) moves in a relatively low and conservative range, which is between 0.17 to 0.25, with a general downward trend from 0.25 in 2015 to 0.19 in 2024, indicating that the company is gradually reducing its reliance on debt funding. Meanwhile, the company's

Return on Equity (ROE) actually shows a significant downward trend, from 19.16 percent in 2015 to 14.22 percent in 2024, with the lowest point recorded at 12.91 percent in 2023. A more interesting phenomenon can be seen in the Price to Book Value (PBV), which has experienced a sharp decline from 5.66 times in 2015 to only 2.59 times in 2024, although the company still recorded positive profits throughout the observation period. This creates an empirical paradox, namely a decline in debt levels that should reflect a healthier financial structure is not followed by an increase in the value of the company, while a decline in profitability adds to the pressure on market valuations. This phenomenon is the starting point of the research problem, namely the need for empirical testing to ascertain the extent to which the capital structure and profitability really affect the company's value in PT Kalbe Farma Tbk over the last ten years. This gap between theoretical expectations and actual conditions reinforces the urgency and novelty of the research to be conducted.

This research has a number of advantages as well as limitations that need to be presented honestly to the reader. On the one hand, the use of clear and measurable variables, namely DER, ROE, and PBV, facilitates the quantitative analysis process and provides a more objective picture of the company's financial condition, in line with the view of Tampubolon et al. (2023) who stated that the use of financial ratios is able to provide a measurable picture of the company's performance. On the other hand, the focus of research that uses only two independent variables causes the exclusion of other potentially significant factors, such as liquidity, sales growth, market risk, and macroeconomic conditions, as suggested by Anggraeni (2021) who emphasizes the importance of comprehensive analysis through various financial ratios. This study also uses a single object, namely PT Kalbe Farma Tbk, so the results cannot be generalized directly to other pharmaceutical companies or industrial sectors with different characteristics. In addition, this study only emphasizes the internal financial aspects of the company, so non-financial factors such as management strategies, product innovation, and changes in regulations in the pharmaceutical industry are not analyzed in depth. The use of long-term data over ten years also has the potential to face differences in reporting standards and delays in the publication of annual reports in certain periods, which can affect the consistency of analysis results. However, these limitations do not reduce the significance of this study in making an empirical contribution to understanding the relationship between capital structure, profitability, and company value in the Indonesian pharmaceutical industry.

Based on this background description, this research is formulated to answer three main questions, namely the extent to which the capital structure measured through DER affects the company's value measured through PBV, the extent to which profitability measured through ROE affects PBV, and how these two variables simultaneously affect the company's value in PT Kalbe Farma Tbk during the period 2015-2024. This study aims to provide empirical evidence that can explain the phenomenon of declining company value in the midst of an increasingly conservative capital structure and declining profitability, so as to enrich the treasure of financial management literature, especially in the context of the Indonesian pharmaceutical industry. Practically, the results of this research are expected to be considered for the management of PT Kalbe Farma Tbk in formulating more optimal funding policies and profit increase strategies to encourage increased company value in the future. For investors and potential investors, the findings of this study are expected to be an additional reference in assessing the feasibility of investing in pharmaceutical sector stocks, especially issuers with large business scales such as Kalbe Farma. In order to answer the research question systematically, the next part of this article will describe the research methods used, followed by the presentation of the results of data analysis and comprehensive discussion. With this approach, this research is expected to be able to provide a complete understanding of the dynamics of the relationship between capital structure, profitability, and company value in one of the leading pharmaceutical companies in Indonesia.

RESEARCH METHODS

This study uses a quantitative approach with an associative analysis method, which aims to determine the relationship or influence between two or more independent variables on one dependent variable. The quantitative approach was chosen because it emphasizes objective measurements and numerical analysis of the phenomenon being studied, so as to be able to produce findings that have a level of validity and reliability that can be scientifically accounted for (Sugiyono, 2020). The associative method is used to identify and explain the relationship between variables, both causal and correlational, so that it can be used to predict the pattern of relationships between capital structure, profitability, and company value. By using statistical analysis techniques such as multiple linear regression, the author can find out the direction of the relationship, the magnitude of the influence, and the level of significance of each variable that is studied in a more objective and measurable manner. The selection of this approach is also based on the consideration that the available data is in the form of annual financial ratio figures that can be systematically processed using standard statistical procedures. Thus, the results of this study are expected to be able to provide a clear and retestable picture of the relationship between the variables studied, as well as make a theoretical and practical contribution to the development of financial management science.

The object of this research is PT Kalbe Farma Tbk, a company engaged in the development, production, and trading of pharmaceutical preparations headquartered at Kalbe Building, Jalan Letjen Suprapto Kavling 4, Jakarta. The data used in this study is secondary data in the form of annual financial statements of PT Kalbe Farma Tbk for the period 2015 to 2024, which were obtained through the official website of the Indonesia Stock Exchange (www.idx.co.id) and the company's official website. The use of secondary data was chosen because it has a number of advantages, including the efficiency of research time and costs, as well as the ease of obtaining standardized data and through an independent audit process, so that it has a relatively high level of reliability. Nevertheless, the authors continue to carefully conduct the selection and verification process of the data to ensure their suitability with the needs and objectives of the research. The data collection technique used is a documentation technique, namely by searching, recording, and processing data on financial position statements, income statements, and annual closing share price data of companies for ten years of observation. The data series is then processed into three main research variables, namely DER, ROE, and PBV, each of which is calculated based on the standard formula that applies in financial ratio analysis.

The variables of this study consist of two independent variables and one dependent variable. The first independent variable is the capital structure (X1) which is measured using the Debt-to-Equity Ratio (DER), which is a comparison between total debt and total company equity, which reflects the proportion of funding coming from creditors compared to shareholders (Kasmir, 2020). The second independent variable is profitability (X2) which is measured using Return on Equity (ROE), which is the ratio of net profit after tax to total equity, which describes the company's ability to generate profits from capital invested by shareholders (Hery, 2020). The dependent variable in this study is the company value (Y) which is measured using Price to Book Value (PBV), which is a comparison between the stock price per share and the book value per share, which reflects the market assessment of the company's growth prospects (Kasmir, 2022). The three variables were chosen because they are measurable, relevant to the research objectives, and have been widely used in similar studies in various industrial sectors in Indonesia and abroad. This clear operational definition is an important guideline in ensuring consistency of variable measurement throughout the data collection and processing process.

The data analysis techniques used in this study include several stages of statistical testing with the help of SPSS software. The first stage is the classical assumption test, which consists of a normality test using the One-Sample Kolmogorov-Smirnov Test method to ensure that residual data is normally distributed, a multicollinearity test by looking at the values of Tolerance and Variance Inflation Factor (VIF) to ensure that there is no high correlation between independent variables, a heteroscedasticity test through a scatterplot graph to ensure that there is no residual variance inequality, and an autocorrelation test using The Durbin-Watson test to ensure that there is no correlation between the residual in the current period and the previous period (Ghozali, 2021). If the results of the initial normality test show that the data is not normally distributed, then corrective action is taken in the form of detection and elimination of outlier data using the Z-score method, namely by converting the data into the form of standard values and issuing observations that have a Z-score value outside the limit of ±3 of the analysis model. This procedure is carried out in a gradual and transparent manner, while still documenting the number of observations before and after the elimination process, in order to maintain the validity and reliability of the results of subsequent analysis. Thus, the regression model used in the next stage of analysis has met all the requirements of the classical assumptions required in linear regression analysis.

The next stage is multiple linear regression analysis, which is used to test the influence of capital structure and profitability together on the value of a company, with the general equation Y = a + b1X1 + b2X2 + e, where Y is PBV, X1 is DER, X2 is ROE, a is constant, b1 and b2 are regression coefficients, and e is a disruptive variable that is not examined in this model. Hypothesis testing is carried out through two stages, namely a partial test (t-test) to determine the influence of each independent variable individually on the dependent variable, and a simultaneous test (F test) to determine the influence of the two independent variables together on the dependent variable, with a significance level of 0.05 or five percent. The decision-making criteria for the t-test and the F-test were based on the comparison of the significance value of the SPSS output result with the set significance level, where a significance value smaller than 0.05 indicates a significant influence, while a significance value greater than 0.05 indicates no significant influence. In addition, a determination coefficient (R^2) analysis was also carried out to find out how much the ability of independent variables to explain the variation of dependent variables, taking into account the value of Adjusted R Square considering that this study used multiple regression analysis with more than one independent variable. The entire series of analyses is designed systematically to be able to answer the formulation of research problems comprehensively and can be accounted for methodologically.

All stages of this research are carried out with great care and prioritize the principles of scientific honesty, starting from the process of data collection, data processing, data analysis, to drawing conclusions. The author realizes that each stage of analysis has its own methodological limitations, so that the interpretation of research results is always carried out proportionately by considering the context of the object and the research period used. By applying a quantitative approach and associative analysis methods consistently, this research is expected to be able to provide an objective and accountable picture of the relationship between capital structure, profitability, and company value at PT Kalbe Farma Tbk. It is hoped that the results of this research will not only be useful academically, but can also make a grounded practical contribution to the management of the company, investors, as well as future researchers who are interested in studying similar topics. The next part of this article will present the results of the data processing in detail, accompanied by an in-depth discussion of the findings obtained from the analysis process.

RESULTS AND DISCUSSION

Results

PT Kalbe Farma Tbk is a pharmaceutical company that was established on September 10, 1966 and has grown to become one of the largest healthcare companies in Indonesia, with shares listed on the Indonesia Stock Exchange with the code KLBF since 1991. The data used in this study is secondary data sourced from the company's annual financial statements for the period 2015 to 2024, which were obtained through the company's official website and the Indonesia Stock Exchange. The three research variables, namely DER, ROE, and PBV, were calculated consistently using the standard formula of financial ratio analysis, resulting in time series data for ten years of observation as presented in Table 1. The results of data processing showed that the three variables experienced different dynamics throughout the study period, reflecting the complex interaction between funding policies, operational performance, and market perception of companies. A detailed description of the development of each variable is presented in the following section.

Table 1. Development of DER, ROE, and PBV of PT Kalbe Farma Tbk for the 2015-2024 Period

Year	THE ER	ROE (%)	PBV (times)
2015	0,25	19,16	5,66
2016	0,22	19,31	5,70
2017	0,19	18,10	5,71
2018	0,18	17,17	4,66
2019	0,21	15,77	4,55
2020	0,23	15,70	3,79
2021	0,20	16,26	3,56
2022	0,23	16,60	4,44
2023	0,17	12,91	3,27
2024	0,19	14,22	2,59

Source: Financial Statements of PT Kalbe Farma Tbk for the Period 2015-2024 (processed).

The development of PT Kalbe Farma Tbk's Debt to Equity Ratio (DER) during the 2015-2024 period, as presented in Table 1, shows a relatively stable pattern with a low trend, which moves in the range of 0.17 to 0.25. In 2015, the DER was recorded at 0.25 and experienced a gradual decline to reach 0.18 in 2018, which shows that the company's equity growth is faster than the growth of its debt. Entering 2019 and 2020, the DER increased again to 0.21 and 0.23, indicating an increase in the use of debt to support the company's operational needs and expansion amid the pressure of the Covid-19 pandemic. After briefly declining to 0.20 in 2021 and rising again to 0.23 in 2022, the DER reached a low throughout the observation period of 0.17 in 2023, before increasing slightly to 0.19 in 2024. According to Kasmir (2021) and Hery (2020), DERs in such low ranges indicate that companies have little dependence on debt financing, so the financial risks faced are relatively controlled. This DER movement pattern confirms that PT Kalbe Farma Tbk has consistently maintained a conservative capital structure, with a larger portion of funding coming from equity than debt over the past decade.

In contrast to the DER pattern which tends to be stable, the Return on Equity (ROE) of PT Kalbe Farma Tbk shows a significant downward trend throughout the 2015-2024 period. ROE was recorded at 19.16 percent in 2015, briefly increased to 19.31 percent in 2016, before experiencing a gradual decline to 18.10 percent in 2017 and 15.77 percent in 2019. This decline continued until it reached a low of 12.91 percent in 2023, before improving slightly to 14.22 percent in 2024, although the figure is still far below the initial achievement of the study period. According to Fahmi (2021), the higher the ROE of a company, the better its performance in generating profits for shareholders, so this consistent downward trend indicates a weakening of the company's effectiveness in managing its own capital to generate profits. Gitman (2021) explained that the decline in ROE can be caused by slower profit growth than equity growth, decreased operational efficiency, and suboptimal asset utilization. This condition indicates that although PT Kalbe Farma Tbk maintained positive profitability throughout the study period, the effectiveness of capital management to generate profits is under continuous pressure, requiring special attention from the company's management.

Price to Book Value (PBV) as a proxy for corporate value shows the sharpest downward trend among the three research variables, from 5.66 times in 2015 to only 2.59 times in 2024. In the early period of the study, PBV even increased to 5.71 times in 2017, before experiencing a consistent decline to 4.66 in 2018, 4.55 in 2019, and 3.79 in 2020 in line with the pressure of the Covid-19 pandemic on overall capital market sentiment. After briefly stabilizing in the range of 3.56 to 4.44 in the 2021-2022 period, PBV declined again to 3.27 in 2023 and reached a low of 2.59 in 2024. According to Tandelilin (2020), a sustained decline in PBV can indicate that the market doubts the company's growth prospects or assesses that the stock price is undervalued compared to its book value. Damodaran (2021) added that the increase in PBV is generally driven by expectations of profit growth, improved operational performance, and positive market sentiment towards the company's future prospects. This consistent downward trend in PBV, which occurs in tandem with a decline in ROE even though DER is relatively controlled, becomes an important empirical phenomenon on which the hypothesis is tested in the next section.

Before the regression test was carried out, a series of classical assumption tests were first carried out to ensure the feasibility of the model, the results of which are presented in Table 2, Table 3, and Table 4. The results of the initial normality test using the One-Sample Kolmogorov-Smirnov Test showed a significance value of 0.000, which is smaller than 0.05, so it was concluded that the residual data were not normally distributed and the regression model was not suitable for further analysis. To overcome this problem, outlier data detection was carried out using the Z-score method, which resulted in a reduction in the number of observations from ten to eight data after two observations identified as outliers were excluded from the model. After the outlier elimination process, the normality test was again carried out and produced a significance value of 0.248, which is greater than 0.05, so that the residual data can be concluded to have been distributed normally. The results of the multicollinearity test showed that all independent variables had a VIF value below 10 and a Tolerance value above 0.10, so that the regression model was declared free of symptoms of multicollinearity. The heteroscedasticity test through a scatterplot graph showed that the data points were randomly spread without forming a certain pattern above or below the zero on the Y axis, while the autocorrelation test with the Durbin-Watson test produced a value of 0.966 in the range of -2 to +2, so that the regression model was declared free of heteroscedasticity and autocorrelation symptoms, and suitable for subsequent hypothesis testing.

Table 2. Normality Test Results Before and After Outlier Elimination

Stages	**Number of Observations**	**Significance Value (Sig.)**	**Remarks**
Before the elimination of outliers	10	0,000	Not normally distributed
After the elimination of outliers	8	0,248	Normal distribution

Source: SPSS data processing results (2026).

Table 3. Multicollinearity Test Results

Variable	**Tolerance**	**VIVID**	**Remarks**
DER (X1)	0,482	2,076	Free of multicollinearity
ROE (X2)	0,782	1,278	Free of multicollinearity

Source: SPSS data processing results (2026).

Table 4. Autocorrelation Test Results (Durbin-Watson)

The Durbin-Watson Values	**Criteria Range**	**Remarks**
0,966	-2 to +2	No autocorrelation occurs

Source: SPSS data processing results (2026).

The results of multiple linear regression analysis, as presented in Table 5, yield an equation Y = 2.590 − 0.519X1 + 9.208X2 + e, where Y is the value of the company proxied by PBV, X1 is the capital structure proxied by DER, and X2 is profitability proxied by ROE. The constant value of 2.590 indicates that if the DER and ROE are zero, then the company value of PT Kalbe Farma Tbk is estimated at 2.590. The DER regression coefficient of -0.519 indicates a negative relationship between the capital structure and the value of the company, which means that every increase in one unit of DER has the potential to decrease the PBV by 0.519 assuming the other variables remain constant. In contrast, an ROE regression coefficient of 9.208 indicates a strong positive relationship between profitability and company value, which means that every one unit increase in ROE has the potential to increase PBV by 9.208 assuming other variables remain constant. Further interpretation of the significance of each of these coefficients is presented in the following hypothesis test results.

Table 5. Results of Multiple Linear Regression Analysis and t-Test (Partial)

Variable	Coefficient B	t count	Sig.	Remarks
Constant	2,590	-	-	-
DER (X1)	-0,519	-1,222	0,225	Insignificant
ROE (X2)	9,208	3,614	0,000	Significant positive

Source: SPSS data processing results (2026). Dependent variable: PBV.

The results of the partial test (t-test) in Table 5 show that the DER variable has a calculated t-value of -1.222 with a significance level of 0.225, which is greater than 0.05, so that the capital structure does not have a significant effect on the company's value in PT Kalbe Farma Tbk during the study period. Meanwhile, the ROE variable has a calculated t-value of 3.614 with a significance level of 0.000, which is smaller than 0.05, so profitability has a positive and significant effect on the company's value. These findings show that the higher the ability of PT Kalbe Farma Tbk to generate profits from its own capital, the higher the company's value reflected in PBV. A more in-depth discussion of these findings, including their relationship to previous theories and research, is presented in the Discussion section.

The results of the simultaneous test (F test) in Table 6 show an F value of 6.842 with a significance level of 0.004, which is smaller than 0.05, so that together DER and ROE have a significant effect on PBV at PT Kalbe Farma Tbk during the 2015-2024 period. The results of the determination coefficient test in Table 7 showed an R Square value of 0.192, which means that the DER and ROE variables were able to explain the PBV variation of 19.2 percent, while the remaining 80.8 percent was explained by other variables outside this study model. The Adjusted R Square value of 0.166 indicates that after adjusting for the number of independent variables, the model's ability to explain the variation in the company's value is 16.6 percent. The summary of all the results of this hypothesis test is the basis for a more in-depth discussion in the next section.

Table 6. Test F Results (Simultaneous)

F count	Sig.	Remarks
6,842	0,004	Significant model (simultaneous effect)

Source: SPSS data processing results (2026).

Table 7. Determination Coefficient (R^2) Test Results

R	R Square	Adjusted R Square
0,438	0,192	0,166

Source: SPSS data processing results (2026).

Discussion

The test results showed that the capital structure (DER) had no significant effect on the company's value of PT Kalbe Farma Tbk (t calculated = -1.222; sig. = 0.225), a finding that needs to be interpreted carefully within the framework of trade-off theory. According to Ross, Westerfield, and Jordan (2020), the trade-off theory explains that companies will determine the optimal capital structure by balancing the tax savings benefits of the use of debt with the costs of financial hardship that may arise, so that the influence of debt on the value of the company is non-linear and depends on the company's position relative to the optimal point. Because PT Kalbe Farma Tbk has consistently maintained the DER at a low and conservative level, well below the potentially risky point of bankruptcy, the variation in DER that occurred throughout the study period was relatively too small to produce a significant marginal effect on the market valuation. This condition is different from the findings of a number of other studies, such as Rachmawati, Handayani, and Karim (2022) and Zahrani, Hidayat, and Supardi (2024), which found a significant influence of capital structure on company value in a sample of pharmaceutical companies with a wider variation of DER. This difference shows that the significance of the influence of capital structure on the value of the company is highly dependent on the range of data variations used, so companies with very stable funding policies such as Kalbe Farma are less likely to show a strong statistical relationship between the two variables. Nevertheless, this conservative capital structure policy still provides the benefit of controlled financial risk, which in turn supports the company's long-term stability although it does not necessarily drive an increase in the company's value directly.

On the other hand, the positive and significant influence of profitability (ROE) on the company's value (t calculated = 3.614; sig. = 0.000) confirms that the Indonesian capital market, especially in the context of the pharmaceutical sector, still highly appreciates the company's ability to generate profits as the main indicator of performance success. These findings are consistent with signaling theory which states that high profitability serves as a positive signal regarding the company's condition and prospects, thereby boosting investor confidence and increasing stock prices in the market. Fahmi (2021) emphasized that investors tend to value companies with high ROE as entities that are able to utilize capital effectively to create added value for shareholders, so it is natural that the decline in the ROE of PT Kalbe Farma Tbk also contributed to the decline in PBV throughout the research period. These results are consistent with the findings of Rachmawati, Handayani, and Karim (2022) and Dewi et al. (2024) in the pharmaceutical sector, and are also in line with Maulana and Mediawati (2022), who both found a significant influence of profitability on company value despite differences in findings regarding the influence of capital structure. This consistency across studies reinforces the argument that profitability is a relatively universal determinant of company value across sectors and research periods, although the magnitude of its influence may vary. However, the downward trend in the ROE of PT Kalbe Farma Tbk from 19.16 percent to 14.22 percent over the past decade is a warning signal for management to re-evaluate operational efficiency and capital management strategies, so that efforts to improve cost efficiency, optimize asset utilization, and product innovation are important keys for Kalbe Farma to recover profitability trends and in turn encourage the recovery of company value in the future.

The significant simultaneous influence of capital structure and profitability on the value of the company (F count = 6.842; sig. = 0.004) suggests that the two variables, although one of them is not partially significant, still interacts with each other in shaping market perception of the company's overall prospects. The framework of trade-off theory and pecking order theory together explain this phenomenon, where companies that maintain a conservative capital structure but experience sustained profitability pressures can still experience a decline in the value of the company, as the market assesses the combination of the two factors holistically. According to Hair et al. (2021), the relatively low coefficient of determination value as found in this study (R Square = 0.192) indicates that there are still other variables outside of capital structure and profitability that have a greater influence on the value of the company, as also found in the research of Adhyasta and Sudarsi (2023), Komalasari and Yulazri (2023), and Anggraini and Ridwan (2024) in the manufacturing sector. which shows that factors such as liquidity, company size, and macroeconomic conditions also play an important role. The practical implication of these findings is that the management of PT Kalbe Farma Tbk needs to pay more attention to efforts to increase profitability rather than simply maintaining a conservative capital structure, given that ROE has proven to be a much more dominant determinant of company value than DER. For investors, these findings indicate the importance of paying attention to the profitability trends of pharmaceutical companies as a key indicator of investment decision-making, without ignoring other fundamental factors that also affect market valuations. Overall, the results of this study enrich an empirical understanding of the dynamics of the relationship between capital structure, profitability, and corporate value in the Indonesian pharmaceutical industry, while opening up space for further research with a wider range of variables and objects.

CONCLUSION

Based on the results of data analysis and discussion that have been described, this study produces three main conclusions that answer the formulation of research problems directly. First, the capital structure proxied by the Debt to Equity Ratio (DER) does not have a significant effect on the company value (PBV) in PT Kalbe Farma Tbk during the 2015-2024 period, as shown by the calculated t-value of -1.222 with a significance level of 0.225 which is greater than 0.05. Second, profitability proxied by Return on Equity (ROE) has a positive and significant effect on the company value (PBV) of PT Kalbe Farma Tbk during the 2015-2024 period, as shown by the calculated t-value of 3.614 with a significance level of 0.000 which is smaller than 0.05. Third, capital structure and profitability simultaneously have a significant effect on the company's value in PT Kalbe Farma Tbk during the 2015-2024 period, as shown by the F-value of 6.842 with a significance level of 0.004 which is smaller than 0.05, with the model's ability to explain the variation in the company's value of 19.2 percent. These three conclusions confirm that profitability is a much more dominant determinant than the capital structure in shaping the company's value in PT Kalbe Farma Tbk, so the hypothesis regarding the influence of profitability on the company's value is acceptable, while the hypothesis regarding the influence of the capital structure is partially unacceptable. These findings provide new empirical evidence on the dynamics of the relationship between capital structure, profitability, and corporate value in one of Indonesia's largest pharmaceutical companies, while enriching the financial management literature that still shows inconsistencies in results in different sectors and periods.

Based on these conclusions, the author conveyed several suggestions for related parties. For the management of PT Kalbe Farma Tbk, it is recommended to prioritize strategies to increase operational efficiency and profitability, considering that ROE has proven to be the most dominant determinant of company value, without the need to drastically change the capital structure policy that has proven to be conservative and able to maintain long-term financial stability. For investors and potential investors, it is advisable to make profitability trends one of the main indicators in assessing the feasibility of investing in pharmaceutical sector stocks, without neglecting the analysis of other fundamental factors such as liquidity and company size. For future researchers, it is recommended to expand the scope of research by adding other variables that have the potential to affect the company's value, such as liquidity, company size, dividend policy, and macroeconomic conditions, as well as expanding the research object to several pharmaceutical companies at the same time so that the results can be generalized more widely.

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