



ANALYSIS OF THE EFFECT OF NET PROFIT MARGIN, TOTAL ASSET TURNOVER, AND FINANCIAL LEVERAGE ON RETURN ON EQUITY (ROE) IN THE PHARMACEUTICAL INDUSTRY SECTOR LISTED ON THE INDONESIA STOCK EXCHANGE

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Received : 10 March 2026

Accepted : 30 April 2026

Revised : 15 March 2026

Published : 18 May 2026

Abstract

The pharmaceutical industry in Indonesia plays a crucial role in maintaining public health and is a strategic part of the country's economy. This study examines ROE, net profit margin, total asset turnover, and financial leverage in pharmaceutical companies listed on the Indonesia Stock Exchange. This study is quantitative in nature. The research data were obtained from secondary sources. Out of a total of 10 pharmaceutical companies listed on the Indonesia Stock Exchange during the period 2016-2024, a sample of 5 companies was selected, with a sample observation of 45 data points. The research results indicate that the classical assumptions have been met. The partial t-test found that net profit margin significantly and positively affects return on equity (ROE) in the pharmaceutical industry listed on the IDX. Total asset turnover significantly and positively affects return on equity (ROE) in the pharmaceutical industry listed on the IDX. However, financial leverage does not significantly affect return on equity (ROE). Net profit margin, total asset turnover, and financial leverage all have a simultaneous effect on ROE (F-test). The adjusted R-square (R²) value is 0.906, or 90.6%, which indicates a significant impact on ROE, while the remaining 9.4% is attributed to other variables that influence ROE.

Keywords: *Net profit margin, total asset turnover, financial leverage, return on equity (ROE).*

INTRODUCTION

The pharmaceutical industry is an important component of Indonesia's economy and public health. The demand for high-quality medicines and the growing public awareness of health are driving the rapid expansion of this industry. The increasing contribution of the pharmaceutical industry to the Gross Domestic Product (GDP) each year, as shown by data from the Central Statistics Agency, reflects the potential of this sector at the national level. However, pharmaceutical companies continue to face difficulties in managing their finances. Return on Equity (ROE) is one way to measure a company's ability to generate profits for its shareholders. It is necessary to evaluate the factors influencing Return on Equity (ROE) because some companies have low ROE. A high Return on Equity (ROE) indicates that a company is efficient at turning shareholders' money into profits. Net profit margin, asset turnover, and financial leverage all impact a company's overall financial performance, which in turn affects the ROE performance. The efficiency of a business in converting every revenue source into profit is indicated by its net profit margin. A high asset turnover rate is an indication of the company's efficient use of assets to generate revenue. Similarly, financial leverage shows how much debt and equity the company uses to run its business. The overall financial success of a company is influenced by these three interrelated factors.

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Phenomenon Table

No	Kode	Nama	Tahun	NPM	TATO	DER	ROE
1	KLBF	PT. Kalbe Farma Tbk.	2016	12.13	1.27	0.22	18.86
			2017	12.16	1.21	0.20	17.66
			2018	11.85	1.16	0.19	16.33
			2019	11.21	1.12	0.21	15.19
			2020	12.11	1.02	0.23	15.32
			2021	12.31	1.02	0.21	15.20
			2022	11.92	1.06	0.23	15.61
			2023	9.12	1.13	0.17	12.02
			2024	9.95	0.11	0.20	13.20
2	DVLA	PT. Darya-Varia Laboratoria Tbk.	2016	10.48	0.95	0.42	14.09
			2017	10.30	0.96	0.47	14.53
			2018	11.81	1.01	0.40	16.72
			2019	12.23	0.99	0.40	16.98
			2020	8.86	0.92	0.50	12.22
			2021	7.71	0.91	0.50	10.53
			2022	7.79	0.95	0.43	10.64
			2023	7.74	0.93	0.45	10.42
			2024	7.48	0.97	0.49	10.78
3	SIDO	PT. Industri Jamu dan Farmasi Sido	2016	18.76	0.86	0.08	17.42
			2017	20.74	0.81	0.09	18.43
			2018	24.02	0.83	0.15	22.87
			2019	26.33	0.87	0.15	26.35
			2020	28.00	0.87	0.19	28.99
			2021	31.36	0.99	0.17	36.32
			2022	28.58	0.95	0.16	31.51
			2023	26.66	0.92	0.15	28.08
			2024	29.88	0.99	0.13	33.57
4	MERK	PT. Merck Tbk.	2016	14.87	1.39	0.28	26.40
			2017	12.51	1.37	0.38	23.51
			2018	6.11	0.48	1.44	7.21
			2019	10.51	0.83	0.52	13.17
			2020	10.96	0.71	0.52	11.74
			2021	12.37	1.04	0.50	19.25
			2022	15.99	1.08	0.37	23.75
			2023	18.54	1.00	0.20	22.40
			2024	14.80	1.08	0.19	19.01
5	TSPC	PT. Tempo Scan Pacific Tbk.	2016	5.97	1.39	0.42	11.77
			2017	5.83	1.29	0.46	10.97
			2018	5.36	1.28	0.45	9.95
			2019	5.41	1.31	0.45	10.28
			2020	7.61	1.20	0.43	13.08
			2021	7.81	1.16	0.40	12.77
			2022	8.47	1.08	0.50	13.74
			2023	9.53	1.16	0.40	15.50
			2024	11.34	1.09	0.36	16.92

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Source: Company Financial Statements

The financial performance analysis of five companies, namely PT Kalbe Farma Tbk (KLBF), PT Darya-Varia Laboratoria Tbk (DVLA), PT Industri Jamu dan Farmasi Sido Muncul Tbk (SIDO), PT Merck Tbk (MERK), and PT Tempo Scan Pacific Tbk (TSPC) for the period between 2016–2024 shows clear differences in performance based on the ratios of Net Profit Margin (NPM), Total Asset Turnover (TATO), Debt to Equity Ratio (DER), and Return on Equity (ROE).

KLBF experienced a decrease in NPM from 12.13% (2016) to 9.12% (2023) before rising to 9.95% (2024). TATO remained relatively stable (1.02–1.27), DER decreased and then slightly increased (from 0.22 to 0.20), and ROE declined before rising back to 13.20% (2024).

DVLA remained stable but stagnant; NPM fluctuated between 7.48% and 12.23% (down to 7.48% in 2024), TATO remained between 0.91–1.01, DER was relatively high (0.40–0.50), and ROE fluctuated mildly, reaching 10.78% in 2024.

SIDO showed the best performance; NPM significantly increased to 31.36% (2021) and 29.88% (2024), TATO was efficient (0.81–0.99), DER was low (0.08–0.19), and ROE was high, though slightly decreased to 33.57% (2024).

MERK experienced large fluctuations; NPM decreased before rising to 18.54% (2023) and then decreased again, DER surged to 1.44 (2018) before falling to 0.19 (2024), and ROE changed from 26.40% (2016) to 19.01% (2024).

Meanwhile, TSPC showed an upward trend; NPM rose to 11.34% (2024), TATO remained high and stable (1.08–1.39), DER remained stable (0.36–0.50), and ROE increased to 16.92%. Overall, SIDO demonstrated the best performance, KLBF and DVLA remained relatively stable without significant improvement, MERK was fluctuating, and TSPC showed consistent growth. Based on these findings, the research team is interested in conducting further research with the title “Analysis of the Influence of Net Profit Margin, Total Asset Turnover, and Financial Leverage on Return on Equity (ROE) in the Pharmaceutical Industry Sector Listed on the Indonesia Stock Exchange.”

LITERATURE REVIEW

Theoretical Foundation: Total Asset Turnover

Total Asset Turnover (TATO) measures a company's efficiency in converting assets into revenue. The higher the TATO, the more efficiently the company utilizes its assets to generate sales (Bodie, Kane, & Marcus, 2004).

Theoretical Foundation: Financial Leverage

Financial leverage, measured by the Debt to Equity Ratio (DER), assesses the balance between debt and equity in a company's financial structure. This ratio indicates the extent to which a company finances its operations with debt compared to equity (Kasmir, 2017).

Theoretical Foundation: The Effect of Net Profit Margin on ROE

The higher the net profit margin, the higher the Return on Equity (ROE) is likely to be, since net profit is a key component in calculating ROE, provided the equity structure remains stable.

Theoretical Foundation: The Effect of Total Asset Turnover on ROE

A high asset turnover rate reflects the efficiency of asset usage to generate revenue, which in turn can increase net profit and ROE (Husnan & Pudjiastuti, 2015).

Theoretical Foundation: The Effect of Financial Leverage on ROE

Financial leverage can increase ROE if the company generates profits higher than the interest costs of its debt. Conversely, if interest costs exceed profits, leverage can reduce ROE (Brigham & Houston, 2014)

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METHOD

This research examines pharmaceutical companies listed on the Indonesia Stock Exchange (IDX) between 2016 and 2024, with a focus on evaluating the impact of Net Profit Margin (NPM), Total Asset Turnover (TATO), and Debt to Equity Ratio (DER) on Return on Equity (ROE). The study follows a quantitative approach, collecting secondary data from sources like the IDX website and company financial reports. A purposive sampling method was used to select five companies, resulting in 45 data points for analysis.

The data analysis involves multiple linear regression to test the relationship between the independent variables (NPM, TATO, DER) and ROE. The research also includes classical assumption tests such as normality, multicollinearity, and heteroscedasticity to ensure the validity of the regression model. Descriptive statistics are used to summarize and interpret the data. The study applies the coefficient of determination (R^2), F-test, and t-test to assess the explanatory power of the model and the significance of each variable. This approach provides valuable insights into the financial performance of pharmaceutical companies, focusing on key financial ratios and their influence on profitability.

RESULTS AND DISCUSSION

Descriptive Statistics

This section provides information about the variables under study, with the aim of obtaining information based on the data as presented in the statistics depicted in the table below:

Descriptive Statistics Table

	N	Minimum	Maximum	Mean	Std. Deviation
NPM	45	5.36	31.36	13.4551	7.15262
TATO	45	.48	1.39	1.0382	.18355
DER	45	.08	1.44	.3436	.21784
ROE	45	7.21	36.32	17.3613	6.83778
Valid N (listwise)	45				

Based on the Table above, the following can be explained:

1. Net Profit Margin (NPM) has a sample size of 45, with the lowest value at 5.36, the highest value at 31.36, the mean value at 13.4551, and the standard deviation at 7.15262.
2. Total Asset Turnover (TATO) has a sample size of 45, with the lowest value at 0.48, the highest value at 1.39, the mean value at 1.0382, and the standard deviation at 0.18355.
3. Financial Leverage has a sample size of 45, with the lowest value at 0.08, the highest value at 1.44, the mean value at 0.3436, and the standard deviation at 0.21784.
4. Return on Equity (ROE) has a sample size of 45, with the lowest value at 7.21, the highest value at 36.32, the mean value at 17.3613, and the standard deviation at 6.83778.

Classical Assumption Test

Normality Test

A distribution is considered normal if the Kolmogorov-Smirnov test produces a threshold value > 0.05 . The Kolmogorov-Smirnov normality test results are as follows:

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Kolmogorov-Smirnov Test Table Before Transformation
One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		45
Normal Parameters ^{a,b}	Mean	.0000000
	Std. Deviation	1.35273592
Most Extreme Differences	Absolute	.142
	Positive	.086
	Negative	-.142
	Test Statistic	.142
	Asymp. Sig. (2-tailed)	.024 ^c

This normality test does not meet the criteria for a normal distribution, as shown in Table 3.2, with an Asymp. Sig. (2-tailed) value of $0.024 < 0.05$. Data that is not normally distributed must be normalized.

Kolmogorov-Smirnov Test After Transformation
Table One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		45
Normal Parameters ^{a,b}	Mean	.0000000
	Std. Deviation	.10918599
Most Extreme Differences	Absolute	.102
	Positive	.102
	Negative	-.075
	Test Statistic	.102
	Asymp. Sig. (2-tailed)	.200 ^{c,d}

- a. Test distribution is Normal.
- b. Calculated from data.
- c. Lilliefors Significance Correction.
- d. This is a lower bound of the true significance.

The results of this normality test show that the data follows a normal distribution, as shown in Table 3.3, where the Asymp. Sig. (2-tailed) is $0.200 > 0.05$.

The histogram test is presented below:

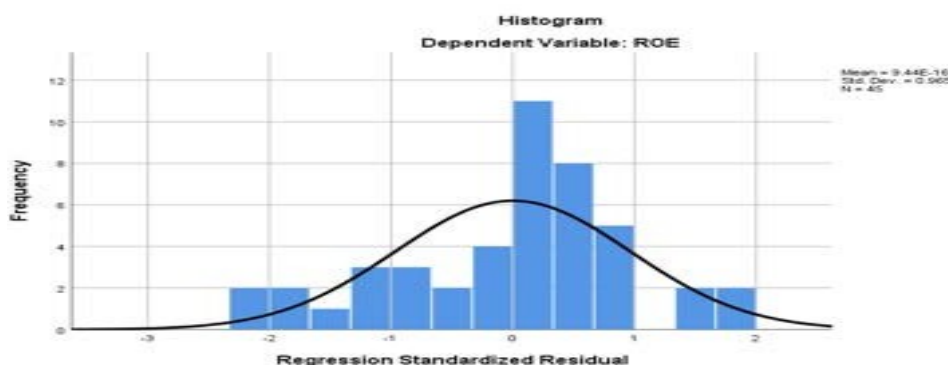
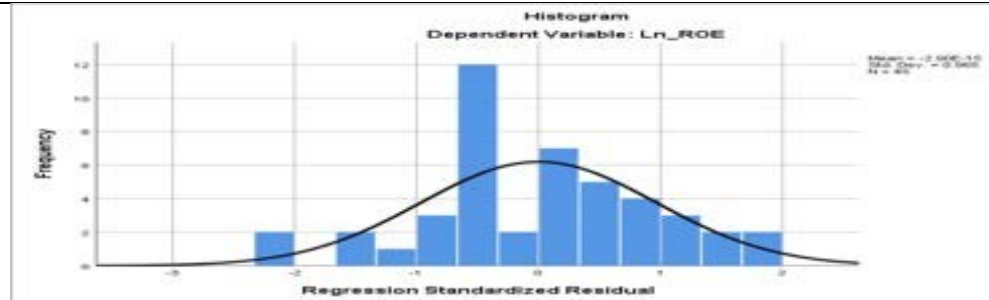


Figure: Histogram Before Transformation

The image clearly shows that the histogram does not follow a normal distribution. The skewness to the left and the absence of an inverted bell shape make this very evident.

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Histogram Image After Transformation

The histogram does not show an inverted bell shape and instead is skewed to the left, as shown in Figure 3.2, indicating that the histogram follows a normal distribution.

Normal probability plot presented below:



Figure: Normal Probability Plot Test Before Transformation

A non-normal distribution is indicated by data points that are far from and do not follow the diagonal line on the normal probability plot.

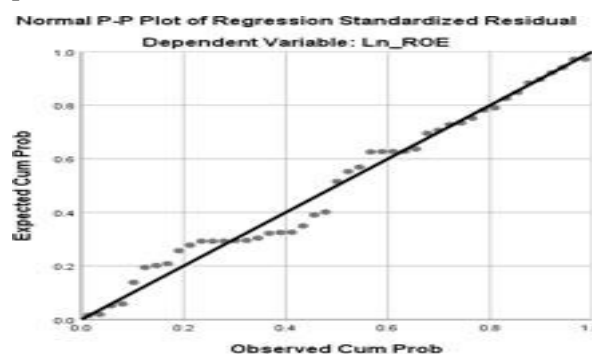


Figure: Normal Probability Plot Test After Transformation

The data points on the normal probability plot tend to cluster around and move in the same direction as the diagonal line, indicating that the data follows a normal distribution.

Multicollinearity Test

One way to determine if multicollinearity exists is by using a multicollinearity test. The decision-making process assumes that regression does not have multicollinearity if the VIF value is < 10 and the tolerance value is > 0.10 .

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Multicollinearity Test Results:

Table: Multicollinearity Test Results

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	NPM	.440	2.271
	TATO	.596	1.677
	DER	.445	2.247

According to Table 3.4, the VIF is less than 10, and the tolerance value is greater than 0.1. It can be concluded that there is no multicollinearity.

Autocorrelation Test

Autocorrelation issues can be identified using the run test, with a significance threshold of > 0.05 . The findings from the autocorrelation analysis using the run test are as follows:

Tabel Hasil Uji Run Test

Runs Test

	Unstandardized Residual
Test Value ^a	.00437
Cases < Test Value	22
Cases \geq Test Value	23
Total Cases	45
Number of Runs	29
Z	1.512
Asymp. Sig. (2-tailed)	.131

a. Median

It can be concluded that no autocorrelation occurs from Table 3.5, as it shows a significance value of $0.131 > 0.05$.

Heteroskedastisitas Test

Dalam penelitian ini akan digunakan *Diagram Scatterplot* yaitu :

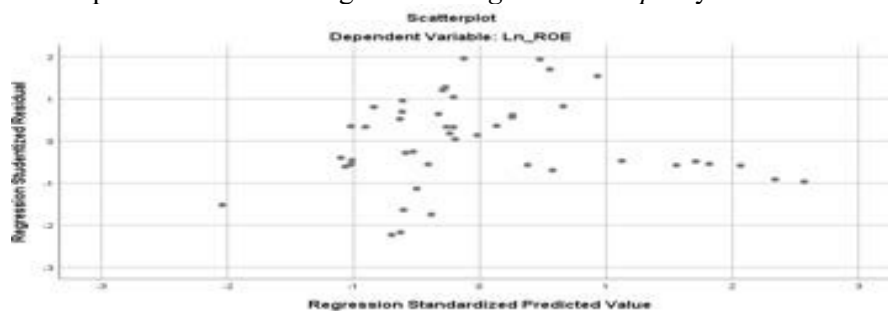


Diagram Scatterplot Test

There is no clear pattern visible in the data, as shown in Figure 3.5, indicating that heteroscedasticity does not occur.

Spearman Rho's Test results are presented in Table below:

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Table: Spearman Rho's Test Results

			NPM	TATO	DER	Unstandardized Residual
Spearman's rho	NPM	Correlation Coefficient	1.000	-.292	-.754**	.226
		Sig. (2-tailed)	.	.051	.000	.135
		N	45	45	45	45
	TATO	Correlation Coefficient	-.292	1.000	.033	.093
		Sig. (2-tailed)	.051	.	.827	.542
		N	45	45	45	45
	DER	Correlation Coefficient	-.754**	.033	1.000	.202
		Sig. (2-tailed)	.000	.827	.	.184
		N	45	45	45	45
	Unstandardized Residual	Correlation Coefficient	.226	.093	.202	1.000
		Sig. (2-tailed)	.135	.542	.184	.
		N	45	45	45	45

** . Correlation is significant at the 0.01 level (2-tailed).

The author concludes that there is no heteroscedasticity because the significance values for net profit margin, total asset turnover, and financial leverage are above 0.05, as shown in Table.

Data Analysis Model

Multiple Linear Regression Analysis

Table details the values of the independent variables used in the multiple linear regression analysis to determine the constant value:

Table Results of Multiple Linear Regression Analysis Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients Beta	t	Sig.
		B	Std. Error			
1	(Constant)	1.287	.189		6.812	.000
	NPM	.053	.004	1.032	14.801	.000
	TATO	.730	.120	.364	6.071	.000
	DER	.073	.117	.043	.621	.538

b. Dependent Variable: Ln_ROE

$$\text{Ln_ROE} = 1,287 + 0,053 \text{ NPM} + 0,730 \text{ TATO} + 0,073 \text{ DER}$$

1. The constant value of 1.287 means that net profit margin, total asset turnover, and financial leverage are considered zero, and the Return on Equity (ROE) is valued at 1.287.
2. The net profit margin value of 0.053 means that when other independent variables are zero, an increase in net profit margin by one unit results in a 0.053 increase in ROE.
3. The total asset turnover value of 0.730 means that when other independent variables are zero, an increase in total asset turnover by one unit results in a 0.730 increase in ROE.
4. The financial leverage value of 0.073 means that when other independent variables are zero, an increase in financial leverage by one unit results in a 0.073 increase in ROE.

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Koefisien Determinasi (R²)

By calculating the coefficient of determination, we can see how well the independent variables explain the dependent variable. Table displays the coefficient of determination:

Table Coefficient of Determination Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.955 ^a	.912	.906	.11311

c. Predictors: (Constant), DER, TATO, NPM

d. Dependent Variable: Ln_ROE

Table shows that among the variables affecting Return on Equity (ROE), the adjusted R Square (R²) is 0.906 or 90.6%; other variables explain the remaining 9.4%.

Simultaneous Test (F-Test)

One way to determine whether the independent factors influence the dependent variable is by using the F-test.

Table: F-Test Statistical Results

Model	Squares	Sum of	ANOVA ^a			Sig.
			df	Mean Square	F	
1	Regression	5.448	3	1.816	141.951	.000 ^b
	Residual	.525	41	.013		
	Total	5.973	44			

e. Dependent Variable: Ln_ROE

f. Predictors: (Constant), DER, TATO, NPM

After calculating the F-calculated value > F-table, 141.951 > 2.83, we find that the F-table value is 2.83 (45-4=41), and the significance value is 0.000 < 0.05. Therefore, we accept H1 and reject H0. Thus, ROE is influenced by financial leverage, total asset turnover, and net profit margin simultaneously.

Partial Test (t-Test)

By using the t-test, we can determine whether the independent variables have an effect on the dependent variable. The following are the results obtained from the data processing:

Table Uji Statistik t Test

Model		Coefficients ^a			t	Sig.
		Unstandardized Coefficients B	Std. Error	Standardized Coefficients Beta		
1	(Constant)	1.287	.189		6.812	.000
	NPM	.053	.004	1.032	14.801	.000
	TATO	.730	.120	.364	6.071	.000
	DER	.073	.117	.043	.621	.538

g. Dependent Variable: Ln_ROE

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The results of the partial statistical tests are as follows:

1. Net profit margin in the pharmaceutical industry sector listed on the IDX is $14.801 > t$ -table value of 2.019, with a significance level of $0.000 < 0.05$. This indicates that net profit margin significantly and positively affects Return on Equity (ROE).
2. Total asset turnover in the pharmaceutical industry sector listed on the IDX is $6.071 > t$ -table value of 2.019, with a significance level of $0.000 < 0.05$. This indicates that total asset turnover significantly and positively affects Return on Equity (ROE).
3. Financial leverage in the pharmaceutical industry sector listed on the IDX is $0.621 < t$ -table value of 2.019, with a significance level of $0.538 > 0.05$. This indicates that financial leverage does not significantly affect Return on Equity (ROE).

Discussion

The Effect of Net Profit Margin on Return on Equity (ROE)

In the pharmaceutical industry sector listed on the IDX, this study found that net profit margin significantly and positively affects Return on Equity (ROE).

If there is no significant change in the equity structure, these results align with the findings of Tobing (2017), who found that ROE increases as net profit margin increases. This is because the calculation of Return on Equity (ROE) primarily uses net profit.

The Effect of Total Asset Turnover on Return on Equity (ROE)

In the pharmaceutical industry sector listed on the IDX, this study found that total asset turnover significantly and positively affects Return on Equity (ROE).

These results align with Husnan and Pudjiastuti (2015), who found that "the higher the asset turnover rate, the higher the efficiency of asset utilization to generate revenue. This impacts the increase in net profit, which ultimately increases Return on Equity."

The Effect of Financial Leverage on Return on Equity (ROE)

In the pharmaceutical industry sector listed on the IDX, this study found that financial leverage does not significantly affect Return on Equity (ROE).

These results do not align with the book *Fundamentals of Financial Management* (2014), where Brigham and Houston stated that leverage can increase Return on Equity (ROE) if the company's income exceeds its debt interest payments. However, if the opposite occurs, leverage actually reduces ROE because interest expenses erode net profit.

The Effect of Net Profit Margin, Total Asset Turnover, and Financial Leverage on Return on Equity (ROE)

The results of this study found that ROE is influenced by financial leverage, total asset turnover, and net profit margin simultaneously.

The finding that net profit margin affects Return on Equity (ROE) aligns with the findings of Anggraeni and Adi (2025). Company profitability and shareholder earnings both increase as net profit margin increases. Total asset turnover also affects ROE. Higher returns for shareholders are possible when the business utilizes its assets more effectively to create sales. ROE is influenced by the debt-to-equity ratio (DER). There is a possibility that shareholder income may increase if DER increases.

CONCLUSION

Based on the data collection and data processing results, the following conclusions can be drawn from the testing results:

1. The first hypothesis: Partially, Net Profit Margin has a positive and significant effect on Return on Equity (ROE) in the pharmaceutical industry sector listed on the IDX.
2. The second hypothesis: Partially, Total Asset Turnover has a positive and significant effect on Return on Equity (ROE) in the pharmaceutical industry sector listed on the IDX.
3. The third hypothesis: Partially, Financial Leverage does not have a significant effect on Return on Equity (ROE) in the pharmaceutical industry sector listed on the IDX.
4. The fourth hypothesis: Simultaneously, Net Profit Margin, Total Asset Turnover, and Financial Leverage collectively affect Return on Equity (ROE).

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