

Evaluating Ideal Capital Structure through WACC And ROA Analysis: Research on IDX-Listed Indonesian Drug Retailers and Distributors (2019-2023)

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Abstract-

This study conducts a thorough investigation into the ideal capital structure for companies operating within the drug retail and distribution sub-sector in Indonesia, specifically targeting those that are listed on the Indonesia Stock Exchange (IDX) during the period from 2019 to 2023. The research compares the Weighted Average Cost of Capital (WACC) with the Return on Assets (ROA) as the value of the firm. The primary objective is to identify the most efficient blend of debt and equity financing that can minimize capital costs while maximizing firm value. The findings reveal that only one company out of the sample has achieved an optimal capital structure, whereas the other two companies have not. For this particular sub-sector, the optimal capital structure is characterized by having more than 68% equity and 0% debt. This paper provides critical insights into strategic financial management and sustainability for companies within this evolving industry. It offers substantial academic contributions and practical guidance that can inform financial decision-making processes within the context of the Indonesian pharmaceutical market. By highlighting these optimal structures, the study aims to guide companies in achieving better financial health and enhancing their competitive edge in the market.

Keywords- WACC; capital structure; firm value; return on asset; drug retail and distributions

Introduction

The ongoing shifts in global finance have placed an emphasis on the strategic importance of capital structure in maximizing corporate value and minimizing costs. This paper explores the concept of optimal capital structure through the lens of the Weighted Average Cost of Capital (WACC) using the Cost of Capital Using Assets (COCUA) approach within the Indonesian drug retail and distribution sector, specifically focusing on companies listed on the IDX from 2019 to 2023. By analyzing the relationship between debt levels, equity financing, and corporate performance, this study seeks to understand how these elements influence WACC and, consequently, firm valuation in a volatile market.

The period of 2019-2023 is particularly significant for the Indonesian economy, marked by challenges such as post-pandemic recovery and increased digitalization, which have directly influenced corporate financing strategies. Within this context, the drug retail and distribution sector in Indonesia presents a unique case study due to its stringent regulatory environment, competitive market forces, and the critical nature of its services.

In recent years, the Indonesian drug retail and distribution industry has faced a number of critical developments. The sector has been significantly impacted by the COVID-19 pandemic, which disrupted supply chains and altered consumer behavior, increasing the demand for pharmaceutical products. The pandemic has forced companies to reevaluate their supply chain strategies, focusing on resilience and adaptability to mitigate risks associated with global disruptions. Additionally, the shift towards local production and sourcing has become more pronounced, as companies aim to reduce dependency on international suppliers.

The rapid adoption of digital health services and e-commerce platforms has been another transformative trend in this industry. As consumers increasingly turn to online platforms for their healthcare needs,

companies are investing heavily in digital infrastructure and technology to enhance their service offerings. This digital transformation includes the development of telemedicine services, online pharmacies, and integrated healthcare solutions that provide convenience and accessibility to consumers. The integration of technology in this sector is also driven by the need to streamline operations, improve supply chain management, and enhance customer engagement.

Regulatory changes have also played a pivotal role in shaping the landscape of the Indonesian drug retail and distribution sector. The government has introduced stringent regulations aimed at ensuring drug safety, efficacy, and quality. These regulations require companies to comply with rigorous standards, which can pose significant challenges in terms of operational costs and compliance efforts. However, they also present opportunities for companies to differentiate themselves through superior quality and compliance, thereby building consumer trust and gaining a competitive edge.

Financial management practices in this sector have also evolved in response to these changes. Companies are increasingly focusing on optimizing their capital structures to balance debt and equity in a way that minimizes costs and maximizes value. The use of advanced financial metrics, such as the COCUA approach for WACC and the Return on Assets (ROA), has become crucial in assessing financial performance and making informed strategic decisions.

Comparing the Weighted Average Cost of Capital (WACC) to the Return on Assets (ROA) is a critical exercise in evaluating a company's optimal capital structure because it provides a clear metric for assessing value creation. WACC represents the average rate of return that a company is expected to pay to its security holders to finance its assets. It blends the cost of equity and the cost of debt, weighted by their respective proportions in the company's capital structure. A lower WACC indicates cheaper overall financing costs, which is desirable for any business.

On the other hand, ROA measures a company's profitability relative to its total assets, indicating how efficiently management is utilizing its assets to generate earnings. It is calculated by dividing the company's net income by its total assets. A higher ROA suggests that the company is effectively converting its investments in assets into net income, reflecting operational efficiency and managerial competence.

When ROA exceeds WACC, it signifies that the company is generating returns on its investments that are greater than the cost incurred to finance those investments. This positive differential indicates that the company is creating value for its shareholders. Essentially, the company is earning more from its assets than it is paying out for the capital needed to finance those assets. This surplus value is a strong indicator of financial health and operational effectiveness, demonstrating that the company is not only covering its capital costs but also providing additional returns to its equity holders. This comparison between ROA and WACC provides invaluable insights into the company's financial strategy. If a company's ROA consistently exceeds its WACC, it suggests that the current capital structure is optimal and that the company is efficiently utilizing its financial resources. This situation typically reflects a well-balanced mix of debt and equity, where the cost of capital is minimized, and the returns on assets are maximized. Such a structure supports sustainable growth and enhances shareholder value. Conversely, if WACC exceeds ROA, it implies that the company is not generating sufficient returns to cover its capital costs, leading to value erosion. This scenario indicates that the company might be over-leveraged or that its assets are not being utilized effectively. In such cases, the company needs to reassess its financial strategy, potentially reducing debt levels to lower WACC or improving asset utilization to increase ROA.

Understanding the relationship between WACC and ROA also helps in making informed decisions about capital allocation. For instance, if a company identifies that its ROA is lower than its WACC, it may decide to reduce its reliance on debt financing, as high-interest payments might be detracting from its net income. Alternatively, the company might look into ways to enhance operational efficiency and asset performance to boost ROA. Additionally, this comparison informs decisions about future investments and growth strategies. A company with an ROA higher than WACC is likely in a strong position to reinvest its earnings into new projects, expand its operations, or undertake acquisitions, knowing that it can generate returns that exceed its cost of capital. This strategic reinvestment fosters long-term growth and competitive advantage.

In financial performance analysis, the WACC-ROA comparison is also crucial for stakeholders such as investors, creditors, and analysts. Investors use this comparison to gauge the company's profitability and financial health, informing their investment decisions. Creditors assess the company's ability to generate sufficient returns to meet its debt obligations, influencing lending decisions and terms. Analysts rely on this metric to provide recommendations and valuations based on the company's ability to create shareholder value. The focus on optimizing capital structures is also driven by the need to manage risks associated with high levels of debt. Excessive leverage can increase a company's vulnerability to financial distress, especially in a volatile market environment. Therefore, maintaining a balanced capital structure that supports sustainable growth while mitigating risks is a key strategic priority for companies in this sector.

This study aims to provide insights into the optimal capital structure of Indonesian drug retail and distribution companies, with the goal of maximizing firm value. Additionally, it will evaluate the capital efficiency of these companies through a comparative analysis of WACC and ROA. By examining the financial strategies and performance of companies in this sector, the research seeks to identify best practices and offer guidance for financial decision-making.

Theoretical Review

The Value of the company

The value of a company, a fundamental focus in corporate finance, is intrinsically linked to its capital structure decisions. The seminal work of Modigliani and Miller (1958) set the stage by suggesting that in a perfect market, a company's value is independent of its financing mix. However, this idealized view was later refined to account for real-world factors such as taxation, bankruptcy costs, and agency conflicts, leading to the development of the trade-off theory. This theory posits that a firm's value is maximized when it balances the tax benefits of debt financing against the cost of potential financial distress (Myers, 1977). Empirical studies have supported this perspective, showing that the market value of a firm is sensitive to its capital structure choices, influenced by factors such as profitability, growth opportunities, and market risk (Rajan and Zingales, 1995; Fama and French, 2002). These studies underscore the intricate relationship between capital structure and firm value, highlighting the strategic importance of financial decision-making in enhancing shareholder wealth.

Capital Structure

The concept of capital structure, pivotal in corporate finance, revolves around the mix of debt and equity financing used by a firm to fund its operations and growth. Modigliani and Miller's groundbreaking work (1958) laid the foundation for capital structure theory, proposing that in perfect markets, a firm's value is unaffected by its financing mix. However, their later revisions acknowledged real-world complexities such as taxes, bankruptcy costs, and agency problems, which led to the development of the trade-off theory. This theory suggests an optimal capital structure balance between the tax advantages of debt and the costs of financial distress (Myers, 1977). Concurrently, the pecking order theory posited by Myers and Majluf (1984) provides an alternative view, suggesting that firms prefer internal financing over external debt and equity due to issues of asymmetric information and the resultant financing hierarchies. Empirical research on capital structure has evolved to incorporate a variety of firm-specific and macroeconomic variables. Studies have shown that factors such as profitability, asset structure, firm size, growth opportunities, and market conditions significantly influence a firm's capital structure choices (Rajan and Zingales, 1995; Frank and Goyal, 2009). Furthermore, sector-specific characteristics also play a critical role. In industries with higher asset tangibility and stable cash flows, like utilities and manufacturing, firms tend to have higher leverage ratios (Titman and Wessels, 1988). In contrast, technology and service sectors, characterized by higher uncertainty and intangible assets, often rely more on equity financing (Harris and Raviv, 1991). Recent studies have also focused on the dynamic nature of capital structure, examining how firms adjust their leverage in response to changes in internal and external conditions (Flannery and Rangan, 2006), thus offering a more nuanced understanding of capital structure decisions over time.

Weighted Average Cost of Capital

The concept of the Weighted Average Cost of Capital (WACC) is central in corporate finance, serving as a pivotal tool in assessing the cost of a firm's capital structure. WACC represents the average rate that a

company is expected to pay to its security holders to finance its assets, effectively blending the costs of equity and debt, weighted by their respective proportions in the firm's capital structure. The foundational work of Modigliani and Miller (1958, 1963) underpins the significance of WACC, illustrating how the mix of debt and equity affects a company's overall cost of capital and, by extension, its valuation and investment decisions. Subsequent research has expanded on this, highlighting WACC as a critical metric in capital budgeting, firm valuation, and financial strategy formulation. It serves as a benchmark for evaluating investment returns and is instrumental in making decisions about mergers and acquisitions, capital expenditures, and dividend policies (Brealey, Myers, & Allen, 2011). Empirical studies on WACC further illuminate its practical applications and the factors influencing its magnitude. Research has shown that WACC varies significantly across industries and geographies, influenced by factors like market conditions, firm size, risk factors, and capital structure (Damodaran, 2001). Moreover, the determination of the cost of equity, a major component of WACC, often involves models like the Capital Asset Pricing Model (CAPM), which introduces systematic risk considerations (Sharpe, 1964; Lintner, 1965). Recent literature also explores the dynamic nature of WACC, acknowledging that it is not static and changes with shifts in the market environment, the firm's risk profile, and capital structure decisions (Fama and French, 1997). This body of literature highlights the nuanced understanding required in calculating and applying WACC, emphasizing its role as a fundamental tool in both theoretical and practical financial analysis.

The Weighted Average Cost of Capital (WACC) using the Cost of Capital Using Assets (COCUA) approach is an alternative method to assess a firm's cost of financing. This approach specifically incorporates the assets perspective into the WACC calculation. The formula for WACC is:

$$\text{WACC} = E/A \times Re + D/A \times Rd \times (1 - Tc)$$

Where:

E/A : represents the ratio of equity to total assets. It indicates what fraction of the company's total assets is financed through equity. This ratio is important because it helps determine how much of the company's financing comes from equity investors as opposed to debt holders.

Re : Cost of Equity. It represents the return expected by the company's equity investors. It can be estimated using models like the Capital Asset Pricing Model (CAPM), which factors in the risk-free rate, the market risk premium, and the company's equity beta.

D/A : represents the proportion of the company's total assets that are financed by debt. This ratio shows what fraction of the company's total assets is financed through borrowing.

Rd : Cost of Debt. It is the effective rate that a company pays on its current debt. This can usually be determined based on the interest rates of current loans or bonds.

$(1-Tc)$: factor accounting for the tax shield due to interest expense. Tc is the corporate tax rate. The interest tax shield is an important aspect because interest payments on debt are tax-deductible, reducing the company's taxable income

The use of the Weighted Average Cost of Capital (WACC) as a financial metric, while widely accepted and useful, comes with several downsides and limitations:

Estimation Challenges: The accurate estimation of WACC components, particularly the cost of equity, can be complex. Models like CAPM, used for calculating the cost of equity, rely on assumptions about market behavior, risk-free rates, and beta, which may not always hold true. These components can be volatile and sensitive to market conditions, leading to potentially inaccurate WACC calculations.

Static Nature in a Dynamic Environment: WACC is often calculated using current data and may not accurately reflect future changes in the market or within the company. This static nature can be misleading in dynamic business environments where market conditions, interest rates, and company risk profiles change over time.

Assumption of Proportional Capital Structure: WACC assumes a constant capital structure, which is often not the case in reality. Companies frequently adjust their mix of debt and equity financing in response to changing internal needs and external market conditions.

Tax Shield Overemphasis: The WACC calculation accounts for the tax shield benefits of debt. However, this can lead to an overemphasis on the benefits of debt financing, potentially encouraging higher leverage than may be optimal, especially in cases where the risk of financial distress is significant.

Applicability Across Different Scenarios: WACC is generally a broad measure and may not be equally applicable to all investment decisions within a firm. Different projects or divisions within a company may have different risk profiles, making a single WACC figure an oversimplification.

Market Value Reliance: The calculation of WACC relies on market values of equity and debt, which can be highly volatile and subject to market sentiments and speculations, not always reflecting the true economic value or risk of the company.

Ignoring Non-Financial Risks: WACC primarily focuses on financial risks and returns, often overlooking non-financial risks such as regulatory changes, environmental factors, or reputational risks, which can also significantly impact a company's value.

Return on Asset

Return on Assets (ROA) is a key financial metric used to assess a company's efficiency in generating profit relative to its total assets. It is calculated by dividing net income by total assets and expressed as a percentage. ROA provides insights into how effectively a company utilizes its assets to generate earnings, making it a crucial indicator of operational performance and managerial effectiveness. Empirical studies have shown that firm-specific variables such as profitability, asset structure, and growth opportunities significantly impact ROA (Rajan & Zingales, 1995). Additionally, macroeconomic factors and industry characteristics play a role in shaping asset returns, with capital-intensive industries typically exhibiting lower ROA compared to service-oriented sectors (Harris & Raviv, 1991). Despite its usefulness, ROA has limitations, such as ignoring the effects of leverage and variations in asset valuation methods. Strong corporate governance has been linked to improved ROA, as effective oversight and managerial incentives can lead to better asset management (Demsetz & Lehn, 1985). Recent research has also highlighted the dynamic nature of ROA, influenced by market conditions and technological changes (Flannery & Rangan, 2006). Furthermore, there is growing interest in the impact of corporate social responsibility (CSR) on ROA, with studies suggesting that sustainable practices can enhance asset productivity (Eccles et al., 2014). Overall, while ROA remains a fundamental tool for financial analysis, its application must consider industry-specific contexts and evolving economic conditions.

Methods

The methodology of this study involves a quantitative analysis of the financial data from IDX-listed Indonesian drug retail and distribution companies over the period from 2019 to 2023. The primary focus is on comparing the Weighted Average Cost of Capital (WACC) with the Return on Asset (ROA) to assess optimal capital structure.

Steps:

Defining the Scope: The study focuses on Indonesian drug retail and distribution companies listed on the IDX from 2019 to 2023. This period provides a contemporary view of capital structure decisions in the post-pandemic recovery phase and the evolving market dynamics.

Data Collection: Financial data will be meticulously gathered from reliable sources such as IDX reports, company annual reports, and recognized financial databases.

Variable Measurement:

Components of the WACC formula, including the market value of equity and debt, total value, cost of equity, and cost of debt to compare to return on invested capital

Component of ROA formula, including the net income and total amount of asset.

Analytical Techniques: Comparing the result between WACC to ROA to find the optimal WACC based on the value of ROA

Interpreting Results: The analysis results will be thoroughly interpreted to understand the impact of different capital structure compositions on the value of companies in this sector.

Conclusion and Implications: Finally, the study will conclude with insights and recommendations for financial strategists and decision-makers in the Indonesian drug retail and distribution sub-sector, emphasizing the practical applications of the findings in real-world financial planning and management. By following this narrative method and detailed steps, the research aims to provide a comprehensive and insightful understanding of the capital structure dynamics within the Indonesian drug retail and distribution sub-sector market, offering valuable contributions to both academic literature and industry practices.

Results And Discussion

This research explores the capital structure dynamics within the Indonesian drug retail and distribution sub-sector market for period 2019 to 2023.

List of Companies Included in Research Sample

Tabel 1. List of Companies Included in Research Sample

Sub Industry	Code	Stock Name
Drug Retail and Distribution	DAYA	Duta Intidaya Tbk
Drug Retail and Distribution	EPMT	Enseval Putera Megatrading Tbk
Drug Retail and Distribution	SDPC	Millennium Pharmacon International Tbk

Results of CAPM, Cost of Debt and Capital Structure for each year from 2019 to 2023

Tabel 2. Results of CAPM, Cost of Debt and Capital Structure for each year from 2019 to 2023

Code	Year	Code	E/A (%)	cost of debt (%)	D/A (%)	CAPM (%)
DAYA	2019	DAYA	0.2323	0.00%	0.0000	-11.43%
	2020	DAYA	0.1696	5.79%	0.0988	4.88%
	2021	DAYA	0.1044	8.58%	0.2481	8.28%
	2022	DAYA	0.0495	7.04%	0.2269	3.92%
	2023	DAYA	0.0255	12.24%	0.0623	5.54%
EPMT	2019	EPMT	0.7041	9.47%	0.0051	18.91%
	2020	EPMT	0.7121	0.00%	0.0000	4.43%
	2021	EPMT	0.7037	0.00%	0.0000	3.34%
	2022	EPMT	0.6862	0.00%	0.0000	4.08%
	2023	EPMT	0.6661	0.00%	0.0000	6.31%
SDPC	2019	SDPC	0.1913	10.72%	0.4003	8.68%
	2020	SDPC	0.1968	11.20%	0.3288	3.94%
	2021	SDPC	0.1964	8.05%	0.3769	8.63%
	2022	SDPC	0.1847	6.64%	0.4039	6.27%
	2023	SDPC	0.1694	8.51%	0.4056	6.49%

From 2019 to 2023, DAYA's financial condition exhibited significant fluctuations, reflecting both strategic shifts and operational challenges. In 2019, DAYA had no financing debt, resulting in a 0% cost of debt and a moderate equity-to-assets (E/A) ratio of 23.23%. However, the company faced severe underperformance with a negative CAPM of -11.43%, indicating substantial financial inefficiencies or external market pressures. By 2020, DAYA introduced debt, marked by a 5.79% cost of debt and a reduction in its E/A ratio to 16.96%, which contributed to a positive CAPM of 4.88%. This shift suggested an initial recovery and improved investor confidence.

In the subsequent years, DAYA continued to increase its leverage, reaching a peak debt-to-assets (D/A) ratio of 29.81% in 2022, with the cost of debt varying between 7.04% and 8.58%. The E/A ratio consistently

declined, dropping to an alarming low of 2.55% by 2023. Although the CAPM improved to around 8.28% in 2021 and stabilized thereafter, the increasing cost of debt to 12.24% in 2023 highlighted significant financial strain. The company's aggressive leveraging strategy and declining equity proportion underscore a precarious financial position, raising concerns about sustainability and long-term viability.

EPMT maintained a strong financial position throughout 2019 to 2023, characterized by high equity proportions and minimal reliance on debt. In 2019, EPMT had a robust E/A ratio of 70.41% and a minimal D/A ratio of 0.51%, with a cost of debt at 9.47%. The high CAPM of 18.91% reflected strong market performance and investor confidence. From 2020 onwards, EPMT strategically eliminated its financing debt, resulting in a 0% cost of debt for three consecutive years. This debt-free status supported stable equity proportions, slightly declining from 71.21% in 2020 to 66.61% in 2023.

The company's CAPM showed some fluctuations, decreasing to 3.34% in 2021 before improving to 6.31% in 2023, indicating varying market conditions and performance perceptions. EPMT's ability to sustain high equity ratios and maintain operational efficiency without relying on debt underscores its strong financial management. This prudent approach likely contributed to its resilience and consistent performance, making it a benchmark for financial stability within the sector.

SDPC's financial condition from 2019 to 2023 was marked by moderate leverage and stable performance. In 2019, the company had an E/A ratio of 19.13% and a significant D/A ratio of 40.03%, with a cost of debt at 10.72%. The CAPM of 8.68% indicated reasonable market performance. Over the years, SDPC maintained a similar financial structure, with slight variations in equity proportions and debt levels. By 2023, the E/A ratio had decreased to 16.94%, and the D/A ratio remained high at 40.56%, while the cost of debt was 8.51%.

Despite these changes, SDPC managed to keep its CAPM relatively stable, fluctuating between 3.94% in 2020 and 8.63% in 2021, ending at 6.49% in 2023. This stability reflects effective financial management despite moderate leverage. The company's consistent approach to balancing equity and debt, along with controlled debt costs, suggests a focus on maintaining operational efficiency and market confidence. However, the relatively high debt levels and associated costs indicate the need for ongoing monitoring to ensure long-term financial health.

Comparison of WACC and ROA for each year from 2019 to 2023

Tabel 3. Comparison of WACC and ROA for each year from 2019 to 2023

Code	Year	Code	WACC (%)	Company Value (ROA)	Result
DAYA	2019	DAYA	-2.654%	2.538%	Not Optimal
	2020	DAYA	1.273%	-6.890%	Not Optimal
	2021	DAYA	2.525%	-7.504%	Not Optimal
	2022	DAYA	1.472%	-5.822%	Not Optimal
	2023	DAYA	0.752%	-2.347%	Not Optimal
EPMT	2019	EPMT	13.352%	6.672%	Not Optimal
	2020	EPMT	3.154%	7.380%	Optimal
	2021	EPMT	2.348%	8.697%	Optimal
	2022	EPMT	2.803%	8.542%	Optimal
	2023	EPMT	4.205%	6.283%	Not Optimal
SDPC	2019	SDPC	4.881%	0.640%	Not Optimal
	2020	SDPC	3.647%	0.241%	Not Optimal
	2021	SDPC	4.060%	0.793%	Not Optimal
	2022	SDPC	3.303%	1.746%	Not Optimal
	2023	SDPC	3.861%	2.018%	Not Optimal

From 2019 to 2023, DAYA consistently failed to achieve an optimal capital structure, as indicated by the comparison between its Cost of Capital Using Assets (COCUA) WACC and Return on Assets (ROA). In 2019, despite a negative WACC of -2.654%, DAYA managed to achieve a modest ROA of 2.538%. However, this slight positive return was insufficient to consider the company's financial structure optimal, largely due to underlying inefficiencies and a negative market perception.

In the subsequent years, DAYA's financial condition deteriorated further. By 2020, the WACC rose to 1.273%, while the ROA plunged to -6.890%, reflecting significant operational challenges and increasing inefficiencies. This trend continued in 2021 and 2022, with WACC values of 2.525% and 1.472% respectively, and negative ROAs of -7.504% and -5.822%. These figures indicate that DAYA's cost of capital was consistently higher than its returns, leading to value erosion and financial distress.

By 2023, the situation slightly improved with a WACC of 0.752%, but the company still recorded a negative ROA of -2.347%. The consistent disparity between the WACC and ROA highlights DAYA's ongoing struggle to manage its capital structure effectively. The company's inability to generate sufficient returns to cover its capital costs underscores fundamental issues in its financial strategy and operational execution, resulting in a persistently non-optimal financial condition throughout the observed period.

EPMT exhibited a more favorable comparison between WACC and ROA from 2019 to 2023, demonstrating periods of optimal capital structure. In 2019, EPMT had a high WACC of 13.352%, with an ROA of 6.672%, indicating a non-optimal financial structure as the cost of capital exceeded the returns. However, starting in 2020, EPMT's financial strategy began to yield positive results. The WACC significantly dropped to 3.154%, while the ROA increased to 7.380%, marking the first year of an optimal capital structure.

This trend of optimal performance continued through 2021 and 2022. In 2021, EPMT achieved a WACC of 2.348% and an ROA of 8.697%, followed by a WACC of 2.803% and an ROA of 8.542% in 2022. During these years, the company effectively managed to keep its cost of capital lower than the returns on its assets, highlighting successful financial management and operational efficiency. These optimal conditions suggest that EPMT capitalized on strategic investments and operational improvements, resulting in enhanced shareholder value.

However, in 2023, EPMT faced a setback as its WACC increased to 4.205%, and the ROA declined to 6.283%. This shift resulted in a non-optimal capital structure for that year, indicating potential challenges in maintaining cost efficiency or a change in market conditions. Despite this, the overall trend from 2020 to 2022 showcases EPMT's capability to optimize its capital structure and maximize returns, underscoring periods of strong financial health and strategic acumen.

SDPC's financial performance from 2019 to 2023 reveals persistent challenges in achieving an optimal capital structure. In 2019, SDPC had a WACC of 4.881% and a very low ROA of 0.640%, indicating a non-optimal financial structure. The high cost of capital compared to the minimal returns highlighted inefficiencies and poor asset utilization. This trend continued in 2020, with a WACC of 3.647% and an even lower ROA of 0.241%, reflecting ongoing operational struggles.

In 2021 and 2022, SDPC showed some signs of improvement but still failed to achieve optimal performance. The WACC in 2021 was 4.060%, with a slightly higher ROA of 0.793%, and in 2022, the WACC decreased to 3.303%, while the ROA improved to 1.746%. Despite these improvements, the company's ROA remained significantly below its WACC, indicating that the returns were still insufficient to cover the capital costs, leading to value erosion.

By 2023, SDPC's WACC rose again to 3.861%, with a modest improvement in ROA to 2.018%. Although there was progress, the returns on assets were still below the cost of capital, highlighting the company's ongoing struggle to optimize its financial structure. The consistent gap between WACC and ROA over the years underscores the need for SDPC to enhance its operational efficiency and strategic financial management to achieve sustainable profitability and value creation.

Conclusion

The analysis of financial data from DAYA, EPMT, and SDPC from 2019 to 2023 provides critical insights into the optimal capital structure for companies within the drug retail and distribution sub-sector in Indonesia. By comparing the Cost of Capital Using Assets (COCUA) Weighted Average Cost of Capital

(WACC) and Return on Assets (ROA), we can assess the effectiveness of each company's financial strategy in creating value for shareholders.

DAYA consistently struggled to achieve an optimal capital structure throughout the observed period. In 2019, despite a negative WACC of -2.654%, the company's ROA was only 2.538%, indicating inefficiencies and financial distress. From 2020 to 2023, DAYA's WACC fluctuated between 0.752% and 2.525%, while ROA remained negative, highlighting persistent operational challenges and an inability to generate returns above the cost of capital. The increasing cost of debt, which peaked at 12.24% in 2023, further exacerbated the company's financial woes. Overall, DAYA's financial performance suggests a need for substantial strategic adjustments to achieve a sustainable and value-creating capital structure.

EPMT demonstrated a more favorable financial performance, achieving an optimal capital structure in multiple years. Notably, from 2020 to 2022, EPMT maintained a high equity proportion (above 68%) and incurred zero debt, resulting in a COCUA WACC significantly lower than its ROA. In 2020, the company had a WACC of 3.154% and an ROA of 7.380%, and in 2021, the WACC further decreased to 2.348% while ROA increased to 8.697%. These figures indicate a period of optimal capital structure, characterized by effective financial management and operational efficiency. However, in 2023, the WACC increased to 4.205%, and the ROA dropped to 6.283%, reflecting potential challenges in maintaining cost efficiency or changes in market conditions. Despite this, EPMT's performance highlights the importance of a high equity base and minimal debt in achieving an optimal capital structure.

SDPC faced continuous challenges in optimizing its capital structure. Throughout 2019 to 2023, the company's WACC consistently exceeded its ROA, indicating non-optimal financial conditions. In 2019, SDPC's WACC was 4.881%, with a ROA of 0.640%. This trend persisted, with slight improvements in ROA, which reached 2.018% in 2023, but still falling short of the WACC of 3.861%. SDPC's high debt levels and associated costs indicate inefficiencies and the need for better asset utilization and operational improvements. The data suggest that SDPC needs to re-evaluate its financial strategy to achieve a balance that reduces its WACC while improving its ROA.

The analysis indicates that the optimal capital structure for the drug retail and distribution sub-sector in Indonesia consists of an equity proportion above 68% and zero debt. This configuration was notably achieved by EPMT during its periods of optimal performance from 2020 to 2022. A high equity base minimizes the cost of capital and maximizes returns, ensuring financial stability and operational efficiency. Companies in this sector should aim to reduce their reliance on debt and focus on strengthening their equity positions to achieve sustainable growth and value creation.

The findings from this analysis underscore the critical importance of maintaining a high equity base and minimizing debt to achieve an optimal capital structure in the drug retail and distribution sub-sector in Indonesia. DAYA and SDPC's struggles highlight the detrimental impact of high debt costs and inefficient asset utilization, while EPMT's periods of optimal performance demonstrate the benefits of a high equity, low-debt approach. For companies in this sector, focusing on financial strategies that enhance equity financing and limit debt exposure will be key to achieving long-term financial health and maximizing shareholder value.

Limitation Of Study

The study's findings are constrained by its reliance on historical financial data, which may not capture the dynamic changes in the market or anticipate future shifts in the economic landscape. Moreover, the focus on a specific sector and a limited number of companies might not provide a comprehensive view of broader industry trends. Consequently, the results should be interpreted with caution, as they reflect the performance of only a select group of companies within the Indonesian drug retail and distribution sector. Future research could benefit from a more extensive dataset and a consideration of broader economic factors that impact capital structure decisions.

Suggestion

To enhance the robustness and applicability of future research in this area, it is recommended that subsequent studies expand the sample size and include companies from various sectors to provide a more comprehensive analysis of capital structure across different market dynamics. Additionally, integrating

qualitative factors such as management strategies and industry-specific risks could offer deeper insights into the financial decisions of firms. Employing advanced econometric models to account for potential endogeneities and market conditions might also refine the findings and bolster the study's relevance to current financial challenges.

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