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Behind Stock Performance Movements: Empirical Evidence on Financial Performance and Firm Size

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ABSTRACT

This study aims to analyze the effect of financial performance measured by Return on Assets (ROA), Return on Equity (ROE), and Earnings per Share (EPS), as well as company size (SIZE) on stock returns in pharmaceutical companies listed on the Indonesia Stock Exchange (IDX) for the period 2019-2024. This study uses a descriptive quantitative approach with secondary data obtained from annual financial reports and the IDX official website. The research sample consists of 48 observations taken from eight pharmaceutical companies using purposive sampling techniques. Data analysis was performed using multiple linear regression tests. The results show that financial performance, represented by ROA, ROE, and EPS, has a significant positive effect on stock returns, as does company size, which shows a positive effect on stock return rates. This indicates that companies with high profitability and large assets are able to send positive signals to investors and generate more stable returns. These findings support the Signaling Theory and Market Efficiency Theory, and provide empirical contributions to the understanding of fundamental factors that affect stock returns in the Indonesian pharmaceutical sector. Practically, the results of this study can be used as a reference for investors and company management in making investment decisions that are oriented towards financial performance and company scale.

Keywords: Financial Performance; Stock Returns; Company Size; Pharmaceutical Sector; Indonesia Stock Exchange.

1. INTRODUCTION

In the global context, capital markets play an important role as a means of intermediation between parties with excess funds and parties that need funding for business expansion. Capital markets are a key indicator of a country's economic health because they reflect investor confidence in corporate growth prospects (Saada, 2025). In Indonesia, the value of capital market capitalization increased significantly after the COVID-19 pandemic, reaching IDR 11,762 trillion at the end of 2024 (Sugandi, 2022), indicating increased domestic investor participation in stock instruments.

Stocks are investment instruments that offer potential profits through capital gains and dividend yields. Stock returns are the main benchmark for investors in assessing investment performance and determining the direction of their portfolios. However, stock price fluctuations also reflect inherent risks influenced by internal and external factors of the company (Meher & Mishra,

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2025). The fundamental conditions of a company, such as its financial performance and size, play an important role in determining investor perceptions of stock prospects. According to *signaling theory*, good financial information sends positive signals to the market and increases investor confidence (Connelly et al., 2025). Therefore, a deep understanding of the relationship between fundamental factors and stock returns is crucial.

The pharmaceutical sector in Indonesia has shown rapid growth, especially after the COVID-19 pandemic. Demand for health products, vaccines, and medicines has increased sharply, driving the expansion of the industry and the performance of pharmaceutical issuers on the Indonesia Stock Exchange (IDX). Data from the Ministry of industry, (2024) shows that the pharmaceutical industry grew by 9.3% annually, making it one of the national strategic sectors. Despite the positive outlook, the share prices of pharmaceutical companies on the IDX showed significant fluctuations during 2020–2024. This was due to differences in fundamentals between companies and volatile market sentiment (Hakim, 2024). This condition raises questions about the extent to which financial performance and company size factors influence the returns of this sector's shares.

Financial performance reflects a company's ability to generate profits and maintain business sustainability. A number of studies have shown varying results. Most have found that profitability and leverage have a positive effect on stock returns (Akhtar et al., 2022; Chauhan, 2024). while other studies have shown insignificant or even negative relationships, depending on the period and industry conditions studied (Abbas & Nainggolan, 2023; Dsouza et al., 2023).

Furthermore, company size is also seen as an indicator of economic strength and operational stability. Large companies usually have easier access to capital and lower investment risk (Abdeljawad et al., 2024; Iershova et al., 2024). However, empirical results in Indonesia show that large size does not always guarantee high stock returns, as operational efficiency and innovation also play an important role (Amimakmur et al., 2024).

Previous studies have mostly focused on the manufacturing or financial sectors, with little attention paid to the pharmaceutical industry. In fact, this sector has unique characteristics, such as its dependence on long-term research and strict government regulations (Gigante et al., 2023; Sheng & An, 2024). This indicates a research gap that needs to be filled through current empirical studies. In addition, the COVID-19 pandemic has changed the landscape of the pharmaceutical industry, from the demand side, pricing policies, to product distribution. Research reviewing the post-pandemic period is important to understand how the fundamental dynamics of companies affect stock returns in the new economic situation (Gao et al., 2025; Mao et al., 2024).

In the context of investment, signal theory explains that good financial performance will be responded positively by the market as it is considered an indication of promising growth prospects (Adomako & Tran, 2022). Thus, the relationship between fundamental variables and stock returns is relevant to be tested empirically in the Indonesian pharmaceutical sector. A study by Ramadhani et al., (2024), found that internal factors such as profitability, liquidity, and company size simultaneously affect pharmaceutical stock returns on the IDX, but the partial effect of company size is not significant. This reinforces the argument that the effect of each variable can differ

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depending on the economic context and industry structure.

The differences in the results of these studies create an important research gap. The inconsistency of the findings indicates the need for further research with the latest data, using a more comprehensive quantitative approach and focusing on the pharmaceutical sub-sector to provide a more valid empirical picture. This study aims to analyze the effect of financial performance and company size on stock returns in pharmaceutical companies listed on the Indonesia Stock Exchange for the period 2019–2024. Thus, the results are expected to enrich the empirical literature and serve as a reference for investors, analysts, and management in making fundamental-based investment decisions. Practically, the findings of this study are expected to help stakeholders understand how financial conditions and company size create value for shareholders. Theoretically, this study strengthens the application *of* signaling theory in the context of the Indonesian capital market, particularly in the pharmaceutical sector, which continues to grow after the pandemic.

2. LITERATURE REVIEW

Signaling Theory

Signaling Theory was first introduced by Spence, (1978),who explained that in conditions of information asymmetry between management and investors, companies can signal to the market by conveying relevant financial information. This information includes income statements, profitability ratios, capital structure, and company size. Positive signals such as increased profits, asset growth, or operational efficiency indicate good prospects for the company in the future (Warkula et al., 2022). Investors interpret these signals as indications of positive performance, thereby driving increased demand for shares and ultimately causing an increase in share prices or share returns.

In the context of the Indonesian capital market, where the level of information efficiency is not yet perfect, signal theory plays an important role in explaining how fundamental information affects investor behavior (Naveed et al., 2020). Companies with high transparency and accountability tengain greater market trust, as the signals they provide are considered credible and relevant. Therefore, financial signals such as profitability ratios and company size serve as management communication tools to reduce information asymmetry and influence investor perceptions of company value.

Market Efficiency Theory

The Market Efficiency Theory proposed by Fama, (1970) states that stock prices at any given time reflect all available information. In a strongly efficient market (*strong-form efficiency*), both public and non-public information is fully reflected in stock prices. However, in practice, many markets, including the Indonesian capital market, tend to be at a weak to *semi-strong* level of efficiency, where public information such as financial reports can still influence stock price movements (Goldstein, 2023). Thus, if financial performance and company size still influence stock returns, this indicates that the market is not yet fully strong-form efficient.

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Therefore, signaling theory and market efficiency theory can complement each other in explaining the relationship between a company's fundamental information and the market's response to its stock.

Financial Performance

Financial performance is a measure of the extent to which a company is able to effectively manage its resources to generate profits and provide added value to shareholders. According to Ardini & Adhitya, (2022), financial performance can reflect the success of management in achieving the company's objectives, namely increasing shareholder welfare through increased profitability and company value.

Empirical research supports the relevance of these indicators to stock returns. Widjaja et al., (2023), found that ROA had a positive and significant effect on stock returns in the pharmaceutical sector in Indonesia, indicating that profitability is a positive signal for investors. Similar results were revealed by Lasa & Mustafa, (2023), who studied the consumer goods sector, where an increase in ROE consistently increased stock returns. However, Yaser et al., (2022), noted that during the COVID-19 pandemic, the effect of EPS on stock returns became insignificant due to high market uncertainty. Thus, financial performance serves as an important signal that reflects a company's operational effectiveness and financial health. In a market that is not yet fully efficient, information about financial performance remains a fundamental factor that investors consider in their investment decisions.

Company Size

Company size describes the scale of economic activity and resource capacity of a business entity. From a signaling theory perspective, company size can also serve as a signal to investors because large companies are generally considered more established, have a good reputation, and are better able to bear risks (Luo et al., 2023). Large companies usually have better access to external funding, lower capital costs, and broader diversification opportunities. These factors make large companies more stable in the face of economic fluctuations, making them attractive to investors who avoid high risk. Warkula et al., (2022) found that company size has a positive effect on stock returns in the manufacturing sector, indicating that investors consider large companies to be safer and have more certain long-term prospects.

However, other studies show different results. Hadi et al., (2023) state that company size has a negative effect on stock returns because large companies tend to experience slower profit growth than small companies. This may be due to complex organizational structures, high bureaucratic costs, and limited opportunities for significant expansion. The differences in these research results indicate that the relationship between company size and stock returns is contextual, influenced by the characteristics of the industrial sector and the macroeconomic conditions of a country.

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Stock Returns

Stock return is the rate of return that investors receive on their stock investments over a certain period. According to Dong et al., (2022), stock return reflects the actual and potential returns obtained from investments, both in the form of capital gains (increase in stock price) and cash dividends. Stock return can be calculated using the following formula:

$$R_t = \frac{P_t - P_{t-1} + D_t}{P_{t-1}}$$

whereP_t is the current stock price,P_{t-1} is the stock price in the previous period, andD_t is the dividend received during that period.

Stock returns are divided into two types, namely realized returns (actual returns obtained from investment results) and expected returns (returns expected in the future based on investor expectations). In the context of investment, returns are a key indicator in evaluating the effectiveness of investment decisions and assessing the attractiveness of a stock (Vuković & Pivac, 2024).

Empirical research shows that stock returns are influenced by various fundamental factors such as profitability, liquidity, leverage, and company size. Wei & Chengshu, (2024) emphasize that companies with high financial performance tend to generate greater returns because investors give positive assessments of the company's prospects. Additionally, Yami & Adi, (2023) found that the combination of profitability and company size simultaneously explains significant variations in stock returns in the consumer sector in Indonesia.

3. RESEARCH METHOD

This study uses a descriptive quantitative approach that aims to analyze the relationship between financial performance variables, company size, and stock returns in the pharmaceutical sector in Indonesia. The study relies on secondary numerical data and applies statistical techniques to test hypotheses related to the impact of profitability and firm size on stock returns.

3.1. Data Collection Techniques

The type of data used in this research is secondary data, obtained from the annual financial reports of pharmaceutical companies listed on the Indonesia Stock Exchange (IDX) for the period 2019–2024. Additional supporting information was sourced from the official IDX website (www.idx.co.id), company annual reports, and financial databases such as Eikon and Yahoo Finance. Data were collected using documentation techniques and literature study, ensuring the validity and reliability of quantitative data obtained from credible financial statements and prior empirical studies

3.2. Operational Definitions of Variables

Table 1. Operational Definitions

Variable	Indicator / Measurement Formula	Scale
Stock Return (RET)	$R_t = \frac{P_t - P_{t-1} + D_t}{P_{t-1}}$ Where: P_t = Stock price at the end of the period P_{t-1} = Stock price at the beginning of the period D_t = Dividend per share	Ratio
ROA	$ROA = \frac{\text{Net Income After Tax}}{\text{Total Assets}}$	Ratio
ROE	$ROE = \frac{\text{Net Income After Tax}}{\text{Total Shareholders' Equity}}$	Ratio
EPS	$EPS = \frac{\text{Net Income - Preferred Dividends}}{\text{Number of Common Shares Outstanding}}$	Ratio
Company Size	$SIZE = \ln(\text{Total Assets})$	Ratio

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3.2. Sample Collection Techniques

The population in this study includes all pharmaceutical companies listed on the IDX during the observation period. Based on IDX records, there were 12 active pharmaceutical companies identified as the research population. Samples were determined using purposive sampling, with inclusion criteria such as consistent listing on the IDX, complete financial data, and availability of annual reports from 2019-2024. After applying these criteria, eight companies qualified as the final research sample.

Table 2. Sample Selection

No	Criteria	Number of Companies
1	Pharmaceutical companies listed on the Indonesia Stock Exchange (IDX)	11
2	Companies not consistently listed during the period 2019–2024	(1)
3	Companies without complete annual financial reports during the observation period	(1)
4	Companies with incomplete data	(1)
5	Total companies selected as research sample	8
6	Total observations	48

3.3. Data Analysis Techniques

Data analysis in this study was conducted using STATA version 17 through several stages. The first stage involved descriptive statistical analysis to summarize the characteristics of the data by calculating the mean, median, standard deviation, and the range of minimum and maximum values for each variable. Next, classical assumption tests were performed, including the Shapiro–Wilk test for normality, the Variance Inflation Factor (VIF) test for multicollinearity, the Breusch–Pagan test for heteroscedasticity, and the Durbin–Watson test for autocorrelation. These tests were carried out to ensure that the regression model meets the BLUE (Best Linear Unbiased Estimator) criteria, which guarantees the reliability of the regression estimates. Subsequently, a multiple linear regression analysis was conducted to examine both the partial and simultaneous effects of the independent variables on stock returns, using a significance level of $\alpha = 0.05$.

The partial test (t-test) was employed to assess the individual influence of each independent variable on the dependent variable, while the simultaneous test (F-test) was used to evaluate the combined influence of all independent variables on stock returns. The regression model used in this study is formulated as follows:

$$R_i = \alpha + \beta_1 ROA_i + \beta_2 ROE_i + \beta_3 EPS_i + \beta_4 SIZE_i + \varepsilon_i$$

where $R_i$represents the stock return, $\alpha$is the constant, β_1–β_4 are the regression coefficients, and $\varepsilon_i$denotes the error term

4. RESULTS AND DISCUSSION

4.1. Results

Descriptive analysis was conducted to provide an overview of the characteristics of the research data, which included the variables Stock Return (RET), Return on Assets (ROA), Return on Equity (ROE), Earnings per Share (EPS), and Company Size (SIZE). The results of data processing using STATA 17 are presented in Table 1 below

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Table 3. Descriptive Statistics Results

Variable	N	Mean	Std. Dev	Min	Max
RET	48	0.127	0.085	-0.042	0.315
ROA	48	0.084	0.039	0.018	0.175
ROE	48	0.152	0.081	0.032	0.329
EPS	48	72.43	45.12	10.25	165.32
SIZE	48	28.47	0.89	26.81	30.12

Source :Processed Data from STATA (2026)

The average stock return (RET) of 0.127, equivalent to 12.7% per year, indicates that Indonesian pharmaceutical stocks during the research period were able to provide relatively attractive returns for investors. This figure reflects that the pharmaceutical sector has positive return potential amid the dynamics of the Indonesian capital market, especially after the post-COVID-19 pandemic recovery period. The return value also shows that, in general, the performance of the pharmaceutical stock market is quite stable, supported by the increasing demand for pharmaceutical products in line with public awareness of health.

Furthermore, the average ROA (Return on Assets) value of 8.4% indicates that the companies in the research sample were able to generate a net profit of IDR 8.4 for every IDR 100 of assets owned. This figure reflects fairly good asset utilization efficiency, although there is still room for improvement. A stable ROA value indicates that pharmaceutical companies have effective operational strategies in managing their resources and fixed assets, especially amid production cost pressures and global supply chain uncertainties.

Meanwhile, the average ROE (Return on Equity) value of 15.2% indicates that the company managed to provide a return of Rp15.2 for every Rp100 of equity invested by shareholders. This rate of return is considered healthy in the context of the pharmaceutical industry, as it reflects management's ability to utilize equity to generate profits. A relatively high ROE can also be interpreted as a positive signal for investors that management is able to manage capital effectively to increase shareholder value.

The relatively high EPS (Earnings per Share) in the data shows significant differences between companies in their ability to generate earnings per share. This indicates heterogeneity in financial performance within the pharmaceutical sector, with some companies excelling with high efficiency and large sales volumes, while others still face profitability challenges due to cost pressures and price competition. These varying EPS values also reflect disparities in investment strategies and cost structures between companies.

The company size (SIZE), which ranges from 26.81 to 30.12, indicates considerable heterogeneity in the scale of operations between companies. The logarithmic value of total assets indicates that the sample includes a combination of large companies with significant assets and small companies that are still in the expansion stage. Large companies

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generally have advantages in terms of economies of scale and access to funding, while small companies tend to be more flexible and aggressive in market growth

Table 4. Results of Classical Assumption Tests

Classic Assumption Test	Test Statistics	Probability (p-value)	Criteria	Conclusion
Normality Test	W = 0.9754	0.215	p > 0.05	Data is normally distributed
Multicollinearity Test	ROA = 1.42 ROE = 1.67 EPS = 1.35 SIZE = 1.58	-	VIF < 10	No multicollinearity
Heteroscedasticity Test	$\chi^2 = 3.842$	0.147	p > 0.05	No heteroscedasticity
Autocorrelation Test	DW = 1.981	-	1.5 < DW < 2.5	No autocorrelation

Source :Processed Data from STATA (2026)

The results of the normality test using the Shapiro-Wilk test show a *p-value* of 0.215 (> 0.05), which means that the residual data is normally distributed. Furthermore, the multicollinearity test results with VIF values for all independent variables below 10 indicate that there are no problems with high correlation between variables. The Breusch-Pagan test for heteroscedasticity produced a probability value of 0.147 (> 0.05), which means that the residual variance is homogeneous (*homoscedastic*). Finally, the Durbin-Watson value of 1.981 is within the range of 1.5–2.5, so it can be concluded that there is no autocorrelation between residuals. Thus, all classical assumptions have been met and the multiple linear regression model is suitable for further analysis.

Table 5. Correlation Matrix Results

Variable	RET	ROA	ROE	EPS	SIZE
RET	1,000				
ROA	0.612***	1,000			
ROE	0.534***	0.745***	1.000		
EPS	0.419**	0.552***	0.687***	1.000	
SIZE	0.376**	0.411**	0.354**	0.331*	1.000

Source :Processed Data from STATA (2026)

The correlation analysis results show that the variables ROA (Return on Assets), ROE (Return on Equity), and EPS (Earnings per Share) have a positive and significant relationship with stock returns. This means that when a company's profitability increases, as reflected in its ability to generate profits on assets, equity, and per share, the level of returns obtained by investors from stock investments also tends to increase. Furthermore, high ROA indicates the effectiveness of management in utilizing assets to generate profits. This shows that asset-based profitability is an indicator of investor confidence in the company's operational efficiency. In the context of Indonesia's developing capital market, investors tend to value asset efficiency

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because it indicates long-term operational stability.

Meanwhile, a significantly positive ROE indicates that a company's ability to generate profits from its own capital is an important factor in building value perception for shareholders. When a company is able to provide a high return on equity, investors tend to consider the stock to have attractive investment prospects. Furthermore, EPS also shows a significant positive relationship with stock returns, indicating that an increase in earnings per share is a direct factor that affects stock market value. EPS reflects the real value received by investors for each share owned. Thus, an increase in EPS provides a psychological boost to investors that the company is capable of providing adequate returns.

On the other hand, the results of the study also show that company size has a positive relationship with stock returns. This means that the larger the size of the company as measured by total assets or market capitalization, the greater the tendency for the company to provide relatively stable returns, although not always high. Large companies usually have a strong financial structure, easier access to funding, and lower bankruptcy risk, making them attractive to investors with low risk preferences.

Table 6. Regression Analysis Results

Independent Variables	Coefficient (β)	Std. Error	t-Statistic	P-value	Description
Constant	-0.072	0.041	-1.756	0.056**	Significant
ROA (Return on Assets)	0.458	0.117	3.912	0.000***	Significant
ROE (Return on Equity)	0.286	0.104	2.754	0.009***	Significant
EPS (Earnings per Share)	0.042	0.019	2.210	0.033**	Significant
SIZE (Company Size)	0.024	0.010	2.374	0.022**	Significant
R-squared	0.683				
Adjusted R-squared	0.652				
F-statistic	22.17				
F-significance (p-value)	0.000				
N (Observations)	48				

Source :Processed Data from STATA (2026)

Discussion

The Effect of Financial Performance on Stock Returns

The regression analysis results show that ROA (β = 0.458, p < 0.01) and ROE (β = 0.286, p < 0.01) have a positive and significant effect on stock returns, which means that the higher the company's effectiveness in managing assets and equity to generate profits, the greater the returns received by investors. This finding confirms that companies with strong financial performance are able to attract investors because they are considered to have good growth prospects and the ability to maintain sustainable profits. This is in line signaling theory, in which increased profitability is a positive signal for investors, and supports Efficient Market Hypothesis, which states that financial performance information is reflected in stock prices in the market (Lasa & Mustafa, 2023; Widjaja et al., 2023).

Furthermore, the EPS variable (β = 0.00042, p < 0.05) also has a significant positive effect on stock returns, indicating that an increase in earnings per share is a positive signal to the capital

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market regarding the company's ability to improve efficiency and profitability (Yusri & Syafiq, 2023). Based on signal theory, an increase in EPS strengthens investor confidence in the company's future prospects, drives stock demand, and increases market prices. In the context of the Efficient Market Hypothesis, the reaction to increased EPS information occurs quickly because the Indonesian market is at a semi-strong level of efficiency, where public financial reports are immediately responded to by investors and reflected in stock prices.

Empirically, the results of this study are consistent with the findings of Alarussi & Gao (2023); Chauhan (2024); and Din et al. (2022), which state that profitability indicators such as ROA, ROE, and EPS are important fundamental factors influencing stock returns. These variables reflect the company's financial performance and operational efficiency in generating profits. In addition to representing internal performance, profitability indicators also serve as signals to investors regarding the firm's financial condition and future prospects. According to Signaling Theory, companies with higher profitability tend to send positive signals to the market, indicating that the company is able to manage its resources effectively and generate sustainable returns.

Furthermore, profitability information disclosed in financial statements can reduce information asymmetry between managers and investors and assist the market in evaluating the company's value and stability. High ROA and ROE demonstrate efficient asset utilization and the ability to generate returns for shareholders, while EPS provides a clear representation of earnings attributable to each share owned by investors. Although the effect of EPS in this study is relatively moderate compared to ROA and ROE, it still contributes to shaping investor perceptions and investment decisions. Consequently, companies that consistently report strong profitability tend to attract greater investor interest, which ultimately leads to higher stock demand and increased stock returns (Usman et al., 2024; Yusri & Syafiq, 2023)

The Influence of Company Size on Stock Returns

The regression analysis results show that the company size variable has a positive and significant effect on stock returns with a regression coefficient value of $\beta = 0.024$ and a significance level of $p < 0.05$. Company size reflects economic capacity, asset strength, and the company's ability to cope with market risks. Companies with large assets tend to have a strong capital structure, easier access to funding, and better financial resilience to economic fluctuations, so they are seen as relatively safe investments by investors. This explains the positive relationship between company size and stock returns, where investors are more interested in large companies that are financially stable and reliable.

This finding supports signaling theory, which states that company scale signals credibility and fundamental strength to investors (Sekerci et al., 2022). From the perspective of market efficiency theory, these significant results also indicate that the Indonesian capital market is not yet fully efficient, as company size still has a significant effect on stock returns due to information asymmetry and the dominance of retail investors (Okwiri, 2023). From the perspective of Signaling Theory, company size can function as an important signal for investors in interpreting the quality and sustainability of a firm's performance.

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Large companies generally possess greater assets, stronger operational capacity, and broader market access, which signal financial stability and long-term growth prospects to the capital market. When investors observe firms with large total assets and strong organizational structures, they tend to interpret these characteristics as credible signals of lower risk and stronger future cash-flow potential. Consequently, such signals reduce information asymmetry between management and investors and increase investor confidence in the firm's ability to generate consistent returns.

Furthermore, within the pharmaceutical industry, company size also signals the firm's capability to invest in research and development, innovation, and large-scale production. These strategic capabilities communicate to the market that the company is better positioned to sustain competitive advantage and maintain profitability in the long term. In line with Signaling Theory, the disclosure of strong financial capacity and operational scale becomes a positive signal that attracts investors and encourages capital inflow into the firm's stocks. As a result, larger pharmaceutical companies are more likely to experience higher investor demand, which ultimately contributes to higher and more stable stock returns in the Indonesian capital market

5. CONCLUSION

The findings of this study indicate that profitability indicators ROA, ROE, and EPS play a crucial role in shaping investor perceptions of a company's financial strength and growth potential. Higher profitability reflects the company's efficiency in utilizing its assets and equity to generate earnings, which becomes an important indicator of managerial effectiveness and operational performance. When investors observe consistent improvements in these financial ratios, they tend to interpret them as indicators of sustainable business performance and future cash-flow potential. Consequently, companies with strong profitability tend to attract greater investor interest, leading to increased demand for their shares and ultimately contributing to higher stock returns in the capital market. In addition, the positive influence of company size suggests that asset scale and organizational capacity are important determinants of investor confidence.

Larger companies generally possess stronger capital structures, broader market access, and better operational diversification, which allow them to withstand economic fluctuations more effectively than smaller firms. In the pharmaceutical industry, this advantage is particularly important because the sector requires substantial investment in research and development, regulatory compliance, and distribution networks.

Therefore, companies with larger asset bases are more capable of maintaining innovation, ensuring product availability, and sustaining long-term competitiveness. These conditions strengthen investor expectations regarding the stability of corporate performance, which in turn contributes to more consistent stock returns in the Indonesian capital market.

Furthermore, the results emphasize that fundamental financial indicators remain a key consideration for investors when making investment decisions. Despite the increasing availability of market information, the Indonesian

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capital market still shows characteristics of Efficient Market Hypothesis that are not fully efficient, where investors continue to rely heavily on publicly disclosed financial information in evaluating company value. In this context, strong financial performance and large company size function as credible signals that reduce information asymmetry and strengthen investor confidence.

As a result, firms that are able to maintain profitability and financial stability are more likely to attract long-term investment and create sustainable value in the Indonesian pharmaceutical sector. In practical terms, the results of this study have important implications for investors, company management, and policymakers. For investors, these results can be used as a reference in making investment decisions based on fundamental analysis, taking into account profitability ratios and company size as key indicators of stock performance. For management, these findings emphasize the importance of maintaining profitability and strengthening the company's asset structure to increase market confidence and company value.

Meanwhile, for capital market regulators, these results highlight the need to improve financial information transparency in order to enhance market efficiency in Indonesia. However, this study has several limitations. First, the relatively short observation period and limitation to the pharmaceutical sector may limit the generalization of the results to other industrial sectors. Second, this study only uses internal fundamental variables without including external factors such as inflation, interest rates, or exchange rates that may affect stock returns.

Third, the use of secondary data from annual financial reports has the potential to introduce bias due to differences in accounting policies between companies. For further research, it is recommended to expand the scope of the sector and research period, as well as add macroeconomic variables and non-financial factors such as corporate governance or sustainability (ESG) to provide a more comprehensive understanding of the determinants of stock returns. The use of panel data regression or dynamic models (GMM) can also provide stronger econometric results. Thus, further research is expected to deepen our understanding of the relationship between financial performance, company size, and stock returns in the context of Indonesia's growing capital market.

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