FINANCIAL PERFORMANCE ANALYSIS ON KALBE FARMA TBK AS COMPARED TO OTHER NATIONAL AND INTERNATIONAL PHARMACEUTICAL COMPANIES

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Abstract-Indonesia is a very big nation. It consists of 13,466 islands, and currently being the 4th highest populated country in the world with a population number of over 238 million people. Even until today, the human race still cannot live disease-free. We still got diseases because viruses are also evolving, like us. This has created an opportunity for pharmaceutical industry to make profit from selling drugs and medicines. There are many pharmaceutical companies in Indonesia, consisting of national and multi-national companies. Kalbe Farma, which was created in 1966, is the one with the biggest market share in the Indonesian pharmaceutical industry currently.The formulation of the problem in this research is about how good is the Kalbe Farma's financial performance, analyzed using financial ratios of the company which calculated based on their annual report, DuPont formula, and Compound Annual Groth Rate (CAGR), then compared to other companies from the similar industry, nationally and internationally.The research is aimed at finding out the performance of Kalbe Farma Pharmaceutical Company financially, and then to compare the result with other companies which are Tempo Scan, Kimia Farma, Merck Indonesia, Darya Varia (national) and Pfizer (international).

Keywords: Pharmaceutical industry, financial ratios, DuPont formula, CAGR, financial performance.

Introduction

The pharmaceutical industry develops, produces, and also sells medicines or pharmaceuticals licensed for medicational use. Pharmaceutical companies are allowed to deal in generic and/or branded medications and medical devices. They are subject to a variety of laws and regulations regarding the patenting, testing and ensuring safety and efficacy and marketing of drugs.

Kalbe Farma is a pharmaceutical company based in North Jakarta, established in 1966. The company has expanded by strategic acquisitions of pharmaceutical companies, becoming an integrated consumer health and nutrition enterprise. The Kalbe Group has brands in the prescription pharmaceuticals, OTC pharmaceuticals, energy drink and nutrition products, with a packaging and distribution arm that reaches over one million outlets. Company brands in healthcare and pharmaceutical segments include Promag, Mixagrip, Woods, Komix, Prenagen and Extra Joss. Kalbe is the largest publicly-listed pharmaceutical company in Southeast Asia with over USD 3.9 billion in market capitalization and a sales turnover of over IDR 10.91 trillion at the end of 2011. Kalbe Farma used to be famous in Indonesia because of their licensed medicines, which are more expensive when compared to the generic medicines. But in February 2012, they launch a new factory in Cikarang, West Java, which focusing in generic medicines production, in order to compete with their rivals who have already been in this business before them such as Dexa Medica, Kimia Farma, and Indo Farma. And as a result, their generic medicines production has developed rapidly and as a result, it has overtook the licensed medicine sales.

Literature Review

Financial Statement Analysis
According to Ross, financial statement of a company is being used to communicate the financial information from both inside and outside the firm. One of the most critical target of an accountant is to inform the users with useful information about the financial statement in order to help them make decisions. In order to assess a financial statement of a company, we need to make a comparison with other similar company. And to make it a fair comparison, we will need to standardize the financial statement. In this research, the author will use two major parts of financial statement analysis which are the income statement and the balance sheet.

Financial Ratios
The other method of analysis that is being used to measure a company's financial performance is the financial ratios. Ross in his book "Corporate Finance" stated that financial ratios are being used to evaluate the connection between different parts of the financial information. When we use financial ratios to measure the financial performance of a company, we need to clearly state our method in calculating the ratios, because there are many different methods and formulas that is being used, which can produce different results and conclusions.

Pharmaceutical Industry
Pharmaceutical industry has something unique if compared to other industry. Pharmaceutical companies averagely use a bigger portion of their total revenues in Research and Development (R&D) division if compared to companies from other business industries. This means that the R&D is something very important in this industry, because people are continuously searching for cheaper and more effective medicines. The development in health care technology also demands pharmaceutical industry to provide medicine to support the healing process.
As Larry Davidson and Gennadiy Greblov said in their paper "The Pharmaceutical industry in the Global Economy", the process of researching and developing a new medicine takes an average of 10-15 years to complete and also a huge amount of money. The success rate in developing a new drug is also very low. Most of the chemical compounds found by researchers are either not medically effective or not safe enough to be an approved medicine. It means that there is a very high level of risk that is contained in the R&D process, which forces pharmaceutical companies to carefully choose which development process are feasible and which aren't.

Methodology
Problem Identification
In this research, the author will analyze the financial performance of PT. Kalbe Farma in the year 2008-2012. The analysis will be using financial ratios and several other indicators in order to compare the financial performance of the company compared to other companies in the same industry.

Literature Review
The author will use some literature reviews as the references in the process of doing this final project. It will provide theories from the experts and professionals, which is related with the topic of the final project itself. The theories will be useful for the author as guidances in doing the final project. They will also help the author to understand the problems.

Data Collection
In this process, the author will find and collect all the data which is related to the final project. Those data will be useful for the author in order to measure the financial performance of Kalbe Farma Tbk. The author has collected the financial statements of Kalbe Farma, Tempo Scan, Kimia Farma, and Merck Indonesia from the data centre in SBM ITB's library, while the financial statements of Pfizer have been gathered from http://www.pfizer.com/investors/financial_reports/financial_reports. The

author also retrieved the financial statement of Darya Varia for the year 2012 from http://www.idx.co.id/Portals/0/StaticData/NewsAndAnnouncement/ANNOUNCEMENTSTOCK/From_EREP/201303/57372ea295_7f893af20b.pdf. But Darya Varia's financial statements from 2008 – 2011 has been gathered from SBM ITB's library.

Data Analysis

The author will implement several steps in measuring the financial performance of the companies. The methods that will be used in this final project are financial ratio analysis, common-size statement analysis, DuPont analysis, and Compound Annual Growth Rate (CAGR).

Firstly, the data in the annual report of each company will be used in calculating the financial ratios which will be done in trend analysis method and cross-sectional analysis method.

Conclusion

The conclusion of this research are based on the analysis that has been done to PT Kalbe Farma and five other pharmaceutical companies from inside and outside Indonesia.

Cross Sectional Analysis

As Gitman stated in his book "Principles of Managerial Finance", cross-sectional analysis compares the financial ratios of different companies at the same point in time.

Trend analysis

The trend analysis method determines a company's growth / progress by comparing its financial ratios from past and current performances (Gitman:2009)

Compound Annual Growth Rate

Compound Annual Growth Rate (CAGR) is an annual geometric mean of the growth rate of a company. It is often used in order to measure the company's growth.

$$\textbf{CAGR } (\textbf{t0}, \textbf{tn}) \; = \; (\textbf{V(tn)}/\textbf{V(t0)})^{\frac{1}{\text{tn-t0}}} - 1$$

Equation 1: CAGR

Liquidity Ratio
Current Ratio

"The current ratio measures the firm's ability to meet its short-term obligations." (Gitman: 2009)

$$Current\ Ratio = \frac{Current\ Assets}{Current\ Liabilities}$$

Equation 2: Current Ratio

Quick Ratio

The quick ratio uses a company's most liquid assets to measure its ability to cover its short-term obligations. The difference with the current ratio is that quick ratio doesn't include inventory, because inventory is usually the least liquid current asset.

$$Quick\ Ratio = \frac{Current\ Assets - Inventory}{Current\ Liabilities}$$

Equation 3: Quick Ratio

Profitability Ratio
Gross Profit Margin (GPM)

Gross profit margin calculates the remaining sales dollar after the company has been able to financed its goods. (Gitman : 2009)

$$Gross\ Profit\ Margin = \frac{Sales - COGS}{Sales} = \frac{Gross\ Profits}{Sales}$$

Equation 4: Gross Profit Margin

Operating Profit Margin (OPM)

Based on Gitman, operating profit margin measures the percentage of each sales dollar remaining after all costs and expenses other than interest, taxes, and preferred stock dividends are deducted."

$$Operating\ Profit\ Margin = \frac{Operating\ Profits}{Sales}$$

Equation 5: Operating Profit Margin

Net Profit Margin (NPM)
"Net profit margin measures the percentage of each sales dollar remaining after all costs and expenses, including interest, taxes, and preferred stock dividends, have been deducted." (Gitman: 2009)

$$Net\ Profit\ Margin = \frac{Earnings\ available\ for\ common\ stockholders}{Sales}$$

Equation 6: Net-Profit Margin

Return on Equity (ROE)
According to Gitman in his "Principles of Managerial Finance" book, the return on common equity calculates the income of the common stakeholders' investment in a company.

$$ROE = \frac{Earnings\ available\ for\ common\ stockholders}{Common\ stock\ equity}$$

Equation 7: ROE

Return on Asset (ROA)
"The return on total assets measures the overall effectiveness of management in generating profits with its available assets." (Gitman: 2009)

$$ROA = \frac{Earnings\ available\ for\ common\ stockholders}{Total\ Assets}$$

Equation 8: ROA

Earnings Per Share (EPS)
Based on Gitman's Principles of Managerial Finance book, the EPS of a company reflects the earnings of a company in a period of time, compared to its number of outstanding share of common stock.

$$Earnings\ Per\ Share = \frac{Earnings\ available\ for\ common\ stockholders}{Number\ of\ shares\ of\ common\ stock\ outstanding}$$

Equation 9: EPS

Debt Ratio or Financial Leverage
Debt to Asset Ratio
"The debt ratio measures the proportion of total assets financed by the firm's creditors." – Gitman

$$Debt\ Ratio = \frac{Total\ Liabilities}{Total\ Assets}$$

Equation 10: Debt to Asset Ratio

Market Ratio
Price/Earnings (P/E) Ratio
"The P/E ratio measures the amount that investors are willing to pay for each dollar of a firm's earnings." – Gitman

$$P/E\ Ratio = \frac{Market\ Price\ per\ Share\ of\ Common\ Stock}{Earning\ Per\ Share}$$

Equation 11: P/E Ratio

Activity Ratio
Total Asset Turnover
Based on Gitman's Principles of Managerial Finance, the total asset turnover represents how efficient a company can make use its asset in order to deliver sales.

$$Total\ Asset\ Turnover = \frac{Sales}{Total\ Assets}$$

Equation 12: Total Asset Turnover

Inventory Turnover

"Inventory turnover commonly measures the activity, or liquidity, of a firm's inventory." - Gitman 2009.

$$Inventory\ Turnover = \frac{Cost\ of\ Goods\ Sold}{Inventory}$$

Equation 13: Inventory Turnover

DuPont System Analysis

The DuPont formula is using a combination of net profit margin (NPM) and total asset turnover ratio to calculate the return on total assets (ROA) of a company. (Gitman : 2009). Under performing business part will be able to detect by the DuPont analysis when the value of the ROE is fluctuative.

$$ROA = \frac{Net\ Income}{Net\ Sales} \times \frac{Net\ Sales}{Total\ Asset} \times 100\%$$

Equation 14: DuPont ROA Analysis

Modified DuPont Formula

Modified DuPont formula is the second step of the DuPont system, which relates the return on total assets (ROA) and the return on common equity (ROE) of a company. (Gitman : 2009)

$$ROE = \frac{Net\ Income}{Net\ Sales} \times \frac{Net\ Sales}{Total\ Asset} \times \frac{Total\ Asset}{Total\ Equity} \times 100\%$$

Equation 15: DuPont ROE Analysis

Results & Data Analysis
Trend Analysis

Table 1. Kalbe Farma Trend Analysis

Kalbe Farma	2008	2009	2010	2011	2012
Liquidity Ratios					
Current Ratio	333,35%	298,70%	439,36%	365,27%	340,54%
Quick Ratio	204,89%	199,51%	304,10%	260,70%	228,71%
Profitability Ratios					
Gross Profit Margin	48,29%	49,65%	50,52%	50,87%	47,91%
Operating Profit Margin	14,51%	17,23%	17,51%	18,04%	16,26%
Net Profit Margin	8,97%	10,22%	12,58%	14,11%	12,99%
ROE	19,51%	21,55%	23,94%	23,63%	24,04%
ROA	12,39%	14,33%	18,29%	18,61%	18,82%
EPS	72	97	137	158	37
Debt Ratios					
Debt to Asset Ratio	23,83%	26,09%	17,92%	21,25%	21,73%
Market Ratios					
P/E Ratio	10,70	10,49	16,89	21,24	84,86
Activity Ratios					
Total Asset Turnover Ratio	1,38	1,40	1,45	1,32	1,45
Inventory Turnover Ratio	2,54	2,93	3,26	3,14	3,36
Average Collection Period	0,03%	0,04%	0,03%	0,04%	0,04%

From 2008 until 2012, the current ratio of Kalbe Farma is going up and down in the range of 298,7% - 439,36%. Theoritically, a good current ratio will increase from year to year, because it shows the company's capability of paying its short-term debts. Kalbe's current ratio jumped drastically from 2009 to 2010, becuase they had a significant increase in cash or cash equivalent from IDR 1.562.664.177.408 to IDR 1.901.871.765.050, which might be affected by the fact that they paid dividend on July 16th, 2010 to their stock investors. But Kalbe Farma's current ratio turns out to be decreasing from 2010 until 2012, which means the company has less cash to pay its short-term

debts. In the quick ratio calculation, the movement of the numbers is pretty similar with the current ratio calculation, so it gives pretty much the same conclusion about Kalbe Farma's liquidity during the time period. From the table, the Gross Profit Margin (GPM), Kalbe's profit margin is not shifting significantly during 2008 until 2012, having just 2,96% as the margin between the lowest and the highest GPM. But in Operating Profit Margin (OPM) and Net Profit Margin (NPM), it shows a consistent climb, reaching the peak in 2011, and fall short in 2012. This happened due to the fact that Kalbe's cost of goods sold (COGS) and total operation expenses were raising in 2012, which caused by the increase of the USD-IDR rate. Around 80% of Kalbe Farma's COGS are used to buy imported raw materials. Meanwhile both the ROE and ROA show constant increase drom 2008 until 2012, which means Kalbe Farma has succeed to produce a better performance in generating profit during the time period. We can see that from EPS point of view, Kalbe Farma was going consistently up from year to year, but it changed after they did a 1:5 stock split in October 2012, resulting in a 500% increase in number of outstanding shares. Therefore, their EPS went down.

The debt to asset ratio of Kalbe Farma is moving between 17,92% and 26,09%. This is a good sign, because it means that Kalbe Farma was never be in an insolvable stage. About more than 70% of its source of capital is not from other parties such as banks and investors, and instead coming from the company itself. They also managed to maintain the debt to asset ratio in a similar value, which means the company is very much in control of its debt. In 2010, Kalbe Farma has a lowly debt ratio of 17,92%, because they had a significant decrease of current liabilities, due to the fact that they had approximately IDR 300.000.000.000 less short-term loans than from the previous year. Looking to Kalbe's P/E ratio, it was consistantly going uphill, and in 2012 the P/E ratio jumped to 84,86 from 21,24 in 2011. This is actually a limitation of this research, becasue the author took the stock price data by using the average of montlhy stock price of a company in the period of one year. Becuase the stock split was done in October 2012, the monthly stock prices of Kalbe Farma from January until September are still high, therefore making the average monthly stock price in that year to be high. So the calculation of Kalbe's P/E ratio in 2012 is not representative of the real condition.

From the total asset turnover ratio, we can see that it is gradually increasing from 2008 until 2010, then dropped in 2011, due to the fact that their net sales are not really improved, because the sales from distribution and packing division has decreased in that year. But the total asset turnover rise up again in 2012. The similar movement also happened in the inventory turnover ratio calculation, which indicates a stable increase in turnover for Kalbe Farma.

Cross-Section Analysis

Table 2. Cross-Sectional Comparison (2012)

2012	Kalbe Farma	Pfizer	Tempo Scan	Kimia Farma	Merck	Darya Varia	Indonesian Average
Current Ratio	340,54%	214,60%	309,33%	280,31%	387,12%	431,02%	340,30%
Quick Ratio	228,71%	189,92%	239,64%	181,57%	188,86%	361,74%	252,92%
GPM	47,91%	80,79%	37,53%	31,47%	45,65%	59,88%	44,20%
OPM	16,26%	39,27%	11,19%	7,64%	15,19%	18,04%	13,28%
NPM	12,99%	24,70%	9,71%	5,51%	11,59%	13,69%	10,48%
ROE	24,04%	17,84%	19,19%	14,27%	25,87%	17,69%	18,80%
ROA	18,82%	7,84%	13,89%	9,91%	18,93%	13,86%	14,12%
EPS	37	23696	140	37	4813	133	87
Debt to Asset Ratio	21,73%	56,04%	27,62%	30,57%	26,81%	21,69%	25,40%
P/E Ratio	84,86	11,93	20,85	14,48	30,43	10,90	32,77
Total Asset Turnover	1,45	0,32	1,43	1,80	1,63	1,01	1,42
Inventory Turnover	3,36	1,60	5,42	4,82	2,13	3,28	4,22

The cross-sectional analysis is also known as industry analysis, where the author will analyze the financial ratios of companies in the similar industry. For comparison purposes, the author have also included the average, Indonesia average, Indonesian maximum, and Indonesian minimum for each ratio. The Indonesia average, Indonesian maximum, and Indonesian minimum section consists of 4 companies which are Kalbe Farma, Tempo Scan, Kimia Farma, and Darya Varia. Merck Indonesia is excluded from the Indonesian section, because it is a part of Merck International, which is based from the United States.

Based on the table, in term of liquidity, Kalbe Farma has a current ratio which is about the same with the average of Indonesian pharmaceutical industry, but in term of quick ratio, kalbe is slightly below average, which indicates that they have a slightly above average inventory. Indonesian pharmaceutical company with the highest liquidity ratios is Darya Varia, as a result of their massive amount of current assets compared to current liabilities.

Moving on to profitability aspect, Kalbe Farma has a more than average Gross Profit Margin, Operating Profit Margin, and Net Profit Margin, due to the fact they have low COGS, high operating profits, and high net income, in relation to its net sales. High GPM means the company is able to pay its operating and other expenses and build for the future. It also indicates that the company is efficient in the manufacturing and distribution processes. But once again, Darya Varia dominates the profit margin section, with the highest GPM, OPM, and NPM amongst other Indonesian pharmaceutical companies. But in term of Return on Equity and Return on Assets, Kalbe Farma is the highest in the Indonesian pharmaceutical companies. This fact highlights Kalbe Farma's massive percentage of net income against other Indonesian pharmaceutical companies.

In the debt section, Kalbe Farma has a below average debt to asset ratio. In fact, they are only 0,04% away from having the lowest debt to asset ratio, which indicates that they have a low percentage of asset that is being financed by debt. This means they carry a lower financial risk, which furthermore means they will have more financial flexibility. Kalbe Farma will find it easier to face a difficult moment such as recession, compared to other Indonesian pharmaceutical companies.

The P/E ratio of Kalbe Farma in 2012 is very high, recording a superb point of 84,86. But this is actually a limitation of this research, becasue the author took the stock price data by using the average of montlhy stock price of a company in the period of one year. Becuase the stock split was done by Kalbe Farma in October 2012, the monthly stock prices of Kalbe from January until September are still high, therefore making the average monthly stock price in that year to be high. So the calculation of Kalbe's P/E ratio in 2012 is not representative of the real condition. Nonetheless, if we look at the P/E ratio comparison in the previous year (2011), we can see that Kalbe Farma is the company with the highest P/E ratio. High P/E ratio means that more investors are faithful in the earnings growth of Kalbe than the earnings growth of other Indonesian pharmaceutical companies in the future.

The last part of this cross-sectional analysis is the activity ratio, in which Kalbe Farma has a slightly above average total asset turnover, but it is certainly low in term of inventory turnover, with a score of 3,36, which once again highlights their high amount of inventory.

Common Size Statement Analysis
Common-Size Income Statement
In this section, every item in the income statement is converted into a percentage of the net sales. As we can see from the table, Kalbe Farma hass managed to reduce the percentage of its cost of goods sold (COGS) from 2008 until 2011, although in 2012 it bounced back to above 50%. It has resulted in the exact opposite story for the gross profit. In term of selling expense, general administrative expense, and R&D expense, they look stable and constant, but if we sum them up into total operating expense, we can se that the percentage is actually going down consistently during the five years period, which means Kalbe Farma has succeed to reduce its total operating expense. From the operating profit perspective, we can see that it has similar pattern with the gross profit. It was going up year to year until 2011, but dropped a little bit in 2012. Same pattern found in

the earnings before income tax (EBIT), and because the expense for income tax is quite stable, we can see the exact same pattern for the net income or earnings for the year.

Common-Size Balance Sheet

In the common-size balance sheet statement, every item from the original balance sheet is converted into a percentage of total asset. In term of cash and cash equivalent, Kalbe has maintained around 25% of its investment in cash or cash equivalent, which means they are running a more conservative strategy. It has less risk, but generally give less profit as well. Meanwhile for trade/account receivable, Kalbe has done a good job by increasing its portion from 16% to 18% in the range of five years. Kalbe has also succeed to decrease its inventories gradually from 28% to 22%. In the total asset section, we can see that Kalbe Farma has a much bigger percentage of current asset rather than non-current asset, which indicates that they are using a lower risk strategy.

DuPont System Analysis

The author will use DuPont system analysis in order to measure the current financial condition of the companies. It will be useful to compare one company to another, so we can get a conclusion of the financial aspects of the company. The DuPont system analysis will be divided into two categories which are ROA analysis and ROE analysis.

Table 3. DuPont System Analysis

2008						
	Kalbe Farma	Pfizer	Tempo Scan	Kimia Farma	Merck	Darya Varia	Indonesian Average
Net Profit Margin	8,97%	16,78%	8,82%	2,05%	15,48%	12,26%	8,03%
Total Assets Turnover	1,38	0,43	1,22	1,87	1,70	0,91	1,35
Equity Multiplier	157,46%	193,11%	132,71%	152,53%	114,59%	125,56%	142,07%
ROA	12,39%	7,29%	10,81%	3,83%	26,29%	11,11%	9,53%
ROE	19,51%	14,08%	14,34%	5,84%	30,13%	13,94%	13,41%
2009						
	Kalbe Farma	Pfizer	Tempo Scan	Kimia Farma	Merck	Darya Varia	Indonesian Average
Net Profit Margin	10,22%	17,27%	8,00%	2,19%	19,52%	8,32%	7,18%
Total Assets Turnover	1,40	0,23	1,38	1,83	1,73	1,11	1,43
Equity Multiplier	150,39%	235,44%	135,46%	157,00%	122,53%	141,21%	146,02%
ROA	14,33%	4,05%	11,03%	4,00%	33,80%	9,22%	9,65%
ROE	21,55%	9,55%	14,94%	6,28%	41,42%	13,02%	13,95%
2010						
	Kalbe Farma	Pfizer	Tempo Scan	Kimia Farma	Merck	Darya Varia	Indonesian Average
Net Profit Margin	12,58%	12,18%	9,52%	4,36%	14,93%	11,93%	9,60%
Total Assets Turnover	1,45	0,35	1,43	1,92	1,83	1,09	1,47
Equity Multiplier	130,87%	220,94%	137,84%	148,77%	119,77%	133,33%	137,70%

ROA	18,29%	4,23%	13,62%	8,37%	27,32%	12,98%	13,32%
ROE	23,94%	9,35%	18,77%	12,45%	32,72%	17,31%	18,12%
2011							
	Kalbe Farma	Pfizer	Tempo Scan	Kimia Farma	Merck	Darya Varia	Indonesian Average
Net Profit Margin	14,11%	14,84%	10,13%	4,93%	25,17%	12,44%	10,40%
Total Assets Turnover	1,32	0,36	1,36	1,94	1,57	1,05	1,42
Equity Multiplier	126,99%	227,55%	139,54%	143,25%	118,25%	127,53%	134,33%
ROA	18,61%	5,32%	13,77%	9,57%	39,56%	13,03%	13,74%
ROE	23,63%	12,11%	19,22%	13,71%	46,78%	16,61%	18,29%
2012							
	Kalbe Farma	Pfizer	Tempo Scan	Kimia Farma	Merck	Darya Varia	Indonesian Average
Net Profit Margin	12,99%	24,70%	9,71%	5,51%	11,59%	13,69%	10,48%
Total Assets Turnover	1,45	0,32	1,43	1,80	1,63	1,01	1,42
Equity Multiplier	127,76%	227,48%	138,17%	144,04%	136,64%	127,70%	134,42%
ROA	18,82%	7,84%	13,89%	9,91%	18,93%	13,86%	14,12%
ROE	24,04%	17,84%	19,19%	14,27%	25,87%	17,69%	18,80%

ROA Analysis

In the ROA DuPont analysis, we will search the correlation between operating efficiency (represented by net profit margin or NPM) and the use of asset (represented by total asset turnover).

Pfizer has the best NPM in 2008, recording a score of 16,78%. But a terrible total asset turnover of 0,43 has caused them to have the worst ROA amongst the six companies. While Kalbe Farma has succeeded to surpass the average and Indonesian average as well. Only Merck who has a massive 26,29%, has a higher ROA than Kalbe.

In 2009, Kalbe Farma has succeeded to improve its NPM and total asset turnover, resulting in an increase of ROA. But once again, despite having the highes ROA against other Indonesian pharmaceutical companies, Merck is better than Kalbe Farma in term of ROA.

In 2010, Kalbe has managed to dominate the table as they produced the best NPM and also total asset turnover between the four Indonesian companies, after making an improvement from their previous year's performance. Tempo Scan, who also succeed to improve from 2009, has a total asset turnover ratio which is similar to Kalbe Farma's.

Moving on to 2011, Kalbe Farma finally failed to improve their total asset turnover, after three consecutive years of improvement. But at the other hand, they were able to record a better NPM than the previous year, which caused them to get a better ROA too. Exact same pattern happened to Tempo Scan in 2011, while Pfizer managed to improve both their NPM and total asset turnover, although they were still far away from their competitors in term of ROA.

In 2012, Kalbe had a reduction for their NPM, but at the other hand they also had an improvement in total asset turnover. Overall, their ROA has slightly improve from the previous year, which means they have a consistantly improved ROA during the course of five years. Again, Tempo Scan also had the exact same pattern with Kalbe during that time period. Pfizer had a significant jump in NPM, although they fell in term of total asset turnover. As a result, they had an increased ROA of 5,73% from their previous year, although yet again, it is still far away from Kalbe's and Tempo's ROA.

ROE Decomposition

Basically, the DuPont ROE Analysis is the ROA, which then multiplied by the equity multiplier (EM). The FPL is the total assets of the company divided by its total equity. The result is called the ROE (return on equity).

So, looking to 2008, Pfizer clearly has the best EM between the six companies. Nevertheless, they still can't deny the fact that their ROE is the worst compared to Kalbe and Tempo because of they had the worst total asset turnover compared to their competitors. Kalbe's EM was a slightly ahead of Tempo Scan's, so they enlarged their supremacy in term of ROE.

Moving into 2009, Pfizer still has the best FLM, 42,33% higher than their previous EM, but yet again their total asset turnover let them down, so overally their ROE is still the worst amongst the six companies. While Kalbe Farma has managed to maintain their lead in EM from Tempo Scan despite having a slight reduction in EM from the previous year.

In 2010, despite their failure to improve the EM, Pfizer could still maintain their dominance in that category. Kalbe also experienced a decline in EM, meanwhile Tempo Scan being the only company to be able to improve their EM. In overall, Kalbe still has the lead in ROE by a noticable distance from their competitors.

In 2011, Kalbe got another slight decline in EM, while Pfizer and Tempo got a slight improvement in that category. But in term of ROE, there hasn't been any change of position at all.

In 2012, all of the companies listed above have a pretty similar EM from the previous year. The ROE position also stayed unchanged.

Compound Annual Growth Rate (CAGR)

Net Sales CAGR

Darya Varia has the best net sales growth from 2008 to 2012 if calculated using compund annual growth rate method, with a score of 17,136%. Kalbe Farma comes thirrd with 14,704%, while Pfizer has a low CAGR score of 5,126%. The author has input the data of pharmaceuticals and drug industry in emerging markets (Asia, Latin America, Eastern Europe, Mid East and Africa) and also in United States, which was taken from www.damodaran.com. The average CAGR of the industry in term of net sales is 12,50%. So, Kalbe, Tempo, and Darya Varia have succeeded to surpass this number, while Kimia Farma and Merck have both failed to surpass the industry CAGR. At the other hand, Pfizer has failed to reach the 7,04% limit of the average net sales CAGR in the US.

Net Income CAGR

Meanwhile in term of CAGR in net income, based on table 4.12 we can see that the average net income of pharmaceutical and drug industry in emerging markets (Asia, Latin America, Eastern Europe, Mid East and Africa) is 11,88%. It means there are four companies in the emerging markets (Kalbe Farma, Tempo Scan, Kimia Farma, and Darya varia) have all surpassed the industry average. But Merck has a very low net income CAGR, due to the fact they had a significant decrease of net income from 2011 to 2012. While in the United States region, Pfizer has suceedded to reach the average industry CAGR of net income.

Conclusions

Firstly, the author will conclude the financial performance measured using financial ratios. , Kalbe Farma has a current ratio which is about the same with the average of Indonesian pharmaceutical industry, but in term of quick ratio, kalbe is slightly below average, which indicates that they have a slightly above average inventory.

Moving on to profitability aspect, Kalbe Farma has a more than average Gross Profit Margin, Operating Profit Margin, and Net Profit Margin, due to the fact they have low COGS, high operating profits, and high net income, in relation to its net sales. High GPM means the company is able to pay its operating and other expenses and build for the future. It also indicates that the company is efficient in the manufacturing and distribution processes. In term of Return on Equity and Return on Assets, Kalbe Farma is the highest in the Indonesian pharmaceutical companies. This fact highlights

Kalbe Farma's massive percentage of net income against other Indonesian pharmaceutical companies.

In the debt section, Kalbe Farma has a below average debt to asset ratio, which indicates that they have a low percentage of asset that is being financed by debt. This means they carry a lower financial risk, which furthermore means they will have more financial flexibility. Kalbe will find it easier to face a difficult moment such as recession, compared to other Indonesian pharmaceutical companies.

Since the P/E ratio of Kalbe Farma in 2012 is not representative of the real condition. The author looks at the P/E ratio comparison in the previous year (2011), where we can see that Kalbe Farma is the company with the highest P/E ratio. High P/E ratio means that more investors are faithful in the earnings growth of Kalbe than the earnings growth of other Indonesian pharmaceutical companies in the future. But high P/E ratio also means that the stock is overpriced. P/E ratio of LQ45 stocks in January 20th, 2011 is 19,01, while Kalbe has a P/E ratio of 21,24. The average P/E ratio in the Indonesian pharmaceutical industry is 14,36. This means Kalbe Farma's stock price was slightly over priced.

The last part of this cross-sectional analysis is the activity ratio, in which Kalbe Farma has a slightly above average total asset turnover, but it is certainly low in term of inventory turnover, with a score of 3,36, which once again highlights Kalbe's high amount of inventory.

Recommendation

The author has two recommendations for Kalbe Farma in order to make their financial performance to be better in the future.

Firstly, in relation to its surprise increase of cost of goods sold in 2012, which furthermore decreased Kalbe Farma's operating profit margin (OPM) and net profit margin (NPM), the author suggest Kalbe Farma to hedge the USD-IDR rate, in order to reduce the risk whenever the rate increased steadily or even dramatically. It will be useful because about 80% of Kalbe Farma's cost of goods sold consists of importing raw materials from other countries, so any changes in USD-IDR rate will be very crucial in determining its COGS.

The second recommendation is to be more aggresive in marketing its product. Kalbe Farma's current ratio is about average in the Indonesian pharmaceutical industry, but its quick ratio is below average, which indicates they have an above average portion of inventory. It is then highlighted once again in the inventory turnover ratio, where kalbe has a far below average inventory turover, compared to other pharmaceutical companies in Indonesia. In order to get a better quick ratio and inventory turnover, they have to reduce the amount of inventory. One of the solution is to promote their products to other market locations, such as the one in more remote areas, in order to boost the number of Kalbe Farma's net sales.

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