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THE EFFECT OF PROFITABILITY, COMPANY SIZE, SALES GROWTH AND *LEVERAGE* ON *FIRM* VALUE

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ABSTRACT

The purpose of this study is to ascertain how firm value is impacted by factors such as leverage, sales growth, company size, and profitability in infrastructure sector companies that are listed on the Indonesia Stock Exchange (IDX) between 2019 and 2021. Purposive sampling was the method utilized in this study's sample selection process. After processing the data with the eviews 13 program, the study's findings offer empirical support for the following claims: leverage has a significant positive effect firm value; company size has no apparent negative impact on value; sales growth has no apparent negative impact on value; and profitability has a significant negative impact on value. The implication of this research is that the sample taken in 2019-2021 where in 2020-2021 there was an economic crisis impact from the co-19 pandemic, if the profitability obtained by a company is only momentary due to economic instability, it does not necessarily increase the value of the company. Company value will be good or increase if the profitability of a company is obtained continuously. Company size does not necessarily have good value for investors, the larger the size of a company will usually require a lot of funding for company operations which are usually obtained from debt. Debt will cause a burden for the company, meaning that if the debt is not managed properly, then instead of increasing the value for the company, it will even cause a burden or problem for the company. Sales growth is not always a benchmark for investors in making investments. If sales growth is not accompanied by increased profitability, it is very detrimental to the Company, meaning that the Company has exerted all its energy but the results are not optimal. Leverage, which is represented by the debt to equity ratio (DER), a high DER value often assumes that the company is sick. If the company can use debt for operations efficiently, so that the company is growing, it will affect the value of the company, so that investors assume that the company is able to manage debt and does not hesitate to invest.

Keywords: *Firm Value, Profitability, Firm Size, Sales Growth, Leverage*

1. INTRODUCTION

Competition in the business world that continues to increase and is getting tighter provides enough opportunities for the business world in Indonesia to experience rapid progress in the infrastructure sector. In the economic field, many changes to the economic system in the free market continue to encourage companies to maximize their efforts and provide incentives to increase the competitiveness of their companies. Undoubtedly, the formation of a corporation serves a goal, one of which is to optimize earnings through the efficient use of available resources, so enabling the company to reap benefits in the form of products and services. The company is engaged in this business activity in order to boost its value and benefit its shareholders, consequently, when the company's worth rises, so too will the welfare and value of the workplace environment, and vice versa. Dewi (2018) asserts that the income statement, which is a part of the financial statements, is crucial since it shows the scope and caliber of a company's operations during a given time period. Through the income statement, investors can predict and determine the value of the company with the profitability that can be achieved by the company.

The company value that continues to increase, can bring investors by investing their funds in the company to achieve the success of shareholders. According to Idawati (2018) company value is a reflection of investors to find out about the company's success related to its share price, so the share price is also a factor that reflects the company's value, the more the share price develops, the higher the company value. Dewi, Endiana, and Pramesti (2022) define company value as a certain outcome that a business has attained as a sign of the public's trust in the company following a series of operations from the business's founding to the present. Nonetheless, a company's worth can also characterize its prospects for the future in addition to its present success. Firm value can be impacted by a number of variables, such as sales growth, leverage, company size, and profitability.

According to Harun and Jeandry (2018), profitability refers to a company's capacity to earn a profit while using its working capital, meaning that it won't face difficulty in repaying its short- and long-term debt and that investors will get dividend payments from the business. According to research by Noviani (2019), a company's profitability is determined by its capacity to turn a profit. The value of a company can be seen from the company's ability to generate profits, because the profitability of a company can be used to measure the level of effectiveness of its management. Profitability is also an indicator of management efficiency which is realized in the management of company assets to generate company profits. The higher the amount of company profitability recorded in the financial statements, it can be interpreted that the company's value is good, with that the company's chances in the future also increase.

Suardana; Endiana, and Arizona; (2020, p. 141) states that a company's size is measured using a variety of factors, including its total assets, log size, stock market value, and other factors. Company size can also have an impact on a company's value because larger businesses will find it simpler to secure finance from both internal and external sources. Juwatinigsih (2019) states that a company's size is one factor taken into account when determining its value. It is easier for a corporation to demonstrate that it has achieved a successful stage of operations the larger its overall assets.

Sinaga, Nababan, Sinaga, Hutahean, and Guci (2019) states that sales growth is a reflection of the success of past company management which can be used to predict future sales growth. One way to assess a company's potential to sustain its overall position in economic and industrial development is to look at its sales growth ratio. Sales, profits after tax (EAT), earnings per share, dividends per share (DPS), and market price per share (EPS) are some of the factors that go into calculating this growth ratio.

The ability of a company to use debt to finance investment is shown by the balance between total debt and the company's own capital, called leverage Puspita and Hartono (2018, p.3). This will assist the company in funding and managing its assets to earn profits so that the company's value will increase. Firm value can be influenced by leverage because the greater the leverage, the greater the investment risk. The company will have a small leverage risk if the leverage ratio is low.

Based on the discussion above, there are inconsistencies between one another from previous studies. Therefore, further research will be conducted with the aim of proving empirically: (1) The effect of profitability on firm value, (2) The effect of company size on firm value, (3) The effect of sales growth on firm value, and (4) The effect of leverage on firm value.

Signaling Theory

Brigham and Houston (2014, p.184) state that the shareholders' perspective on the company's opportunity to increase the company's value in the future is signal theory, where the information is provided by management to shareholders. It can be seen from the company's future prospects whether the company has good or bad quality is an activity that can provide signals to investors or shareholders. Consideration material for shareholders in investing can use published company reports.

According to Ghozali (2020, p. 166) signals in general are signals made by managers within the company to investors or outsiders. Ghozali (2020, p. 167) the company has more and better quality information than investors relating to the company's condition and prospects for the future. This can cause information asymmetry conditions where information inequality occurs. This condition can hinder investors in making investment decisions. Therefore, companies must attach a lot of information so that the company can have better profit prospects or growth opportunities in the future.

Agency Theory

Agency theory was first coined by Jensen & Meckling (1976), which explains that agency theory is a contract involving the authorizer (principal) and the recipient of authority (agent). The authorizer is someone whose job is to give orders to the recipient of the authority, later the recipient of the authority will carry out all activities or activities related to the company on behalf of the authorizer (principal). Novira and Suzan (2020) explain that agency theory provides an estimate that there are differences in interests that result in problems between investors and managers that cause information asymmetry. Company management can take opportunistic actions because management has more information than shareholders in order to achieve its own goals.

Company Value

According to Indrarini (2019), firm value, which is commonly correlated with stock price, can be interpreted as an investor's assessment of the manager's track record of effectively managing the company's entrusted assets. A company's worth is represented by its stock price, which is determined by supply and demand in the capital market and reflects the public's assessment of the company's performance, according to Harmono (2015, p. 235). According to Dzahabiyya, Johansyah, and Danial (2020), a ratio known as Tobin's Q is used to determine the value of a business based on the assessments of its intangible and tangible assets. Price Book Value (PBV), according to Arianti and Putra (2018), is a metric used to assess a developing company's worth by examining the worth of financial reports given to the management and organization of the business.

Profitability

Every business has different goals because profitability is defined as the capacity of an organization to generate a profit (Dayanara, Titisari, and Wijayanti, 2019). According to Sudarsono (2021), a company is considered profitable if it can generate a profit within a given time period. Curry and Budianti (2018) state that profitability can be determined using two distinct types of ratios. The first ratio can make use of return on equity and return on assets, which demonstrate the relationship between investments and profitability. The relationship between sales and profitability can be determined using the second ratio, which can make use of net profit margin and gross profit margin. Diverse research has yielded inconsistent findings about the relationship between profitability and corporate value. Profitability is said to have a significant positive impact on firm value by Dewi and Ekadjaja

(2020), but research by Fauzi and Aji (2018) indicates that it has a significant negative impact, and research by Putranto and Kurniawan (2018) indicates that it has a negligible impact. According to the signaling theory, investors would interpret changes in the profitability level as a positive signal that may be used to estimate the company's value. Consequently, the company's worth is reflected in its capacity to turn a profit. A company's value increases with its profitability and vice versa. Examining a company's ability to produce returns for investors or profits is a key factor that influences the company's worth. The chance to gain reciprocal benefits in the form of dividends given by certain companies is the reason why investors invest in businesses and with their own money. As a result, company value is impacted by profitability.

Ha1: Profitability has a significant positive effect on firm value

Company Size

Large-scale businesses with high market capitalizations tend to have larger firms (Suardana, Endiana, and Arizona, 2020). One of the elements taken into account when calculating and assessing a company's value is its size. The entirety of the company's assets serve as a gauge of its size (Lumoly, Murni, and Untu, 2018). The amount of revenue, total assets, and total number of employees that the business owns can all be used to estimate the size of the business (Vidyasari, Mendra and Saitri 2021, p. 99). Suardana, Endiana, and Arizona (2020) developed a scale that allows for the classification of a company's size. In the meantime, firm value is unaffected by company size, claim Fatimah, Permadhy, and Triwahyunngtyas (2020), Indriyani (2017), and Suryandani (2018). The enormous size of the company is not the reason for the higher value. A larger corporation will need more debt in order to finance its daily operations. The poor use of debt will result in interest payments for the company that exceed its earnings.

There is a relationship between business value and company size in respect to signaling theory. This is evident from the overall assets, log size, and stock market valuation, all of which can serve as indicators for the business. The worth of the company will rise in proportion to the total assets, log size, and stock market value.

Ha2: Company size has a significant negative effect on firm value

Sales Growth

The amount of sales from year to year sales is measured by sales growth (Imawan, 2021). Sales growth, in Yuliani's opinion (2021), can serve as a predictor of future firm growth as well as an indicator of the performance of previous investments. Growth in sales refers to the rise in sales from the previous period to the current one. The growth ratio serves as an indicator of a company's capacity to sustain its financial position in light of both industrial and economic growth.

Sales growth is a positive indicator or signal indicating the business has opportunities that can benefit investors, according to the debate of signal theory. For businesses that can offer advantages in the shape of dividend payments or capital gains, investors can only hope for a rise in sales that keeps pace with future growth. Anggraeni, Sodik, Tahir, and Imawan and Triyonowati (2021) A company's earnings will rise in response to higher sales growth, and as a result, investors are becoming more eager to invest in the business in order for it to grow and gain in value.

Ha3: Sales Growth has a significant positive effect on firm value.

Leverage

A ratio called leverage is used to calculate the percentage of debt to capital. Because using high debt might result in a reduction in income tax, judgments about its usage can raise the value of the company; for this reason, leverage management is crucial. Businesses must make well-considered decisions about whether to use equity capital or loans (Kasmir, 2015, p. 113). Agency theory states that there is a link between company value and leverage. The greater the degree to which creditors transmit prosperity to firm shareholders, the higher the company's leverage value.

According to earlier studies by Aggarwal and Padhan (2017), Indrayani, Endiana, and Pramesti (2021), the company's debt is anticipated to help fund and manage its assets to generate profits, which will raise the company's worth. Thus, a company's value may be reflected in the level of leverage it generates. However, the aforementioned contradicts the findings of Farizki and Suhendro (2021) and Aisyah et al. (2019), who found that leverage has no bearing on firm value and that a company's poor value is not usually the result of a high DER number. Similarly, because investors view the financial statements from different angles, a low DER figure does not always translate into a boost in the value of the company. Companies that fund assets using their own capital (internal financing) do not cause leverage to affect firm value.

Ha4: Leverage has a significant negative effect on firm value

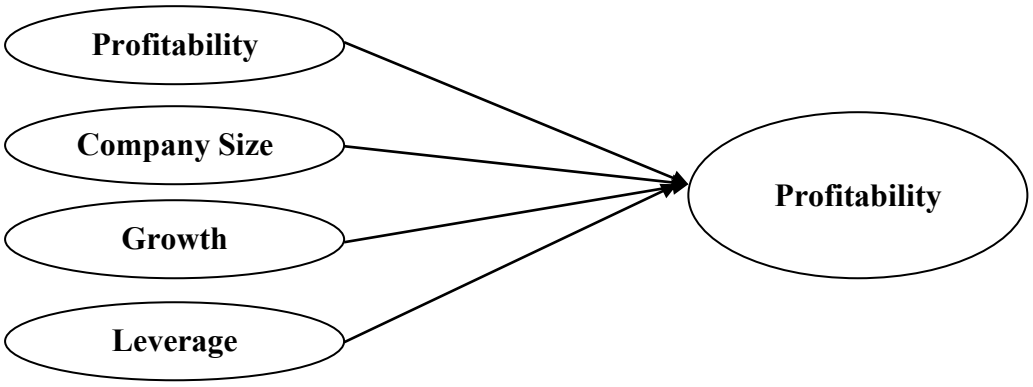

Figure 1. Framework of Thought

2. RESEARCH METHOD

The study's population consists of infrastructure industry companies listed on the Indonesia Stock Exchange for the 2019–2021 term. The selected sample of enterprises consisted of 47 companies. The appropriate sample selection technique for this investigation is purposeful sampling with the following criteria: (1) Infrastructure sector companies that disclose their financials in Rupiah; (2) Infrastructure sector companies that list between 2019 and 2021 on the Indonesia Stock Exchange; and (3) Infrastructure sector companies with financial reports covering the 2019–2021 period that concluded on December 31. This study's data analysis will make use of a data regression model and the Eviews version 13 testing tool. A table with the operationalization of the research variables is provided below:

Table 1. Variable Operationalization

Variables	Description	Scale
Firm value	$PBV \frac{Price\ per\ Share}{Book\ Value\ per\ Share}$	Ratio

Profitability	$ROA = \frac{Net\ Profit}{Total\ Assets}$	Ratio
Firm size	$Size = Ln(Total\ Assets)$	Ratio
Sales growth	$Sales\ Growth = \frac{(Sales\ Revenue_t - Sales\ Revenue_{t-1})}{Sales\ Revenue_t}$	Ratio

Thus it can be concluded that multiple linear regression equations were used in this study:

$$\mathbf{PBV = \alpha + \beta_1\ ROA + \beta_2\ SIZE + \beta_3\ SG + \beta_4\ LEV + e}$$

Description:
PBV :Price to Book Value
α : Constant
β_1 - β_4 : Regression coefficient
ROA :Return on Asset
SIZE :Firm Size
SG :Sales Growth
LEV :Leverage
e : Error

3. RESULTS AND DISCUSSIONS

In accordance with the results of the model selection that has been carried out previously, the model used in multiple regression analysis is the *Fix Effect Model*. The multiple linear regression analysis equation in this study is as follows:

Table 2 The Results of T Test
Source: Data Processed Using EViews version 13.0

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.256355	3.859360	0.584645	0.5602
ROA	-0.014418	0.002106	-6.847302	0.0000
SIZE	-0.063363	0.135131	-0.468902	0.6403
SG	-0.293462	0.636271	-0.461221	0.6458
LEV	0.242187	0.018992	12.75214	0.0000

First, 0.0000 is the notable return on assets (ROA) value. This coefficient value of <0.05 shows that the profitability variable (ROA) affects firm value, with a value of -0.014418, which denotes negative results. H1 is rejected because it is not possible to accept the claim that profitability has a significant positive impact on business value. Second, 0.6403 is the pertinent firm size (SIZE) value. H2, which contends that company size has a negative significant effect on firm value, cannot be accepted due to its coefficient value of -0.063363, which implies negative outcomes. As a result, H2 is rejected. Due to the fact that this value is more than 0.05, firm value is not impacted by the company size variable (SIZE). Third, Sales Growth (SG) has a substantial value of 0.6458. H3, which asserts that sales growth has a positive and significant effect on firm value, is rejected because this number is more than 0.05 and shows that the Sales Growth (SG) variable has no effect on firm value. Furthermore, the coefficient value of -0.293462 denotes unfavorable results. Fourth, the prob.value of 0.0000, where the value is less than 0.05, shows that the leverage variable (LEV) has an effect on firm value. Furthermore, a coefficient value of 0.242187 denotes successful outcomes. As a result, H4, which asserts that leverage significantly reduces company value, is rejected since it is not acceptable.

Table 3 The Results of Determination-Coefficient Test
Source: Data Processed Using EViews version 13.0

R-Squared	Adjusted R-squared
0.887389	0.824828

The corrected R-square, which is based on the above table, has a value of 0.824828, or 82.4828%. Compared to zero, this value is closer to one. The study concludes that the factors of leverage, sales growth, company size, and profitability may account for 82.4828% of the information derived from firm value, with the remaining portion being explained by independent variables not included in the analysis.

Based on the results of the data processing, it suggests that the t test results (partial) profitability has a significant influence on the value of the company. This is indicated by the significant value of 0.000, which is less than 0.05 (0.000 <0.05). The multiple linear regression test's coefficient value of -0.014418 shows that there is a negative correlation between profitability and firm value. This suggests that the company value (PBV) may decrease by -0.014418 for every unit increase in ROA. Therefore, Ha1 is rejected even if profitability has a significant negative impact on a company's value. Based on the aforementioned assertion, it can be stated that profitability affects company value significantly but negatively; this indicates that the data processing outcomes do not support the previously established hypothesis. A higher return on assets (ROA) does not always translate into a more profitable business. From an investor's perspective, high profits may not always translate into positive future prospects for the company because other aspects need to be considered. As demonstrated by a high profitability value, a strong company potential might draw in investors; nevertheless, a high profitability value is not always correlated with a rise in stock demand. If profitability is only temporary owing to economic instability, as was the case in the 2019–2021 sample when 2020–2021 was affected by the economic crisis, it does not always improve the company's worth. If a corporation can consistently achieve profitability, its value will either remain high or even rise. The results of the study align more with the findings of Putranto and Kurniawan (2018), who contend that firm value is unaffected by profitability, than they do with the findings of Dewi and Ekadjaja (2020), who assert that business value is positively impacted by research.

The data processing results indicate that the size of the company has no significant effect on firm value, as indicated by the partial t test results. This is indicated by the significance value of 0.6403, which means greater than 0.05.

The multiple linear regression test indicates that there is a negative correlation between firm value and company size, as indicated by the coefficient value of -0.063363. This indicates that a one-unit rise in SIZE may result in a -0.063363 drop in firm value (PBV). As a result, firm value Ha2 is rejected and company size has a negative direction and no meaningful influence. Based on the aforementioned assertion, it can be said that firm value is not much impacted by company size. This is because the data processing outcomes do not support the premise that was previously established. The data processing results contradict the preceding theory since growing firm value is not solely a function of scale, as a huge firm may not always offer investors high value. More capital, typically in the form of debt, is required for business operations when a firm grows in size. In addition to decreasing investor interest in the company, inefficient debt utilization by businesses can send a bad signal to potential investors. Thus, firm value is independent of a company's size. The study's findings are consistent with those of studies by Octaviany, Hidayat, and Miftahudin (2019) and Fatimah,

Permadhy, and Triwahyunnigtyas (2020), which found that the research had a favorable direction and had no effect on company value. The study's findings contradict those of Suardana, Endiana, and Arizona's (2020) investigation, which found a relationship between business value and company size.

The results of the significant test show that there is no significant link between sales growth and the dependent variable, firm value (PBV), with a direction of -0.293462 and a significance value of 0.6458>0.05 for the third independent variable, sales growth. This theory suggests that Ha3 is rejected because sales growth has little bearing on the value of the company. In this case, test results indicating a negative and insignificant effect of sales growth on company value imply that sales growth in and of itself may not be a trustworthy measure of firm value. Because sales are not the company's main source of income, a high or low level of sales does not always affect the company's worth. Sales growth may be regarded as having no bearing on investors' decision to fund the business, which means it has no effect on the company's valuation. The findings of this study are consistent with research by Dang, Vu, Ngo, and Hoang (2019) that shows no significant relationship between sales growth and firm value; however, the results of this study do not support the findings of Anggraeni, Sodik, and Tahir (2021); or of Sinaga, Nababan, Sinaga, Hutahean, and Guci (2019) that show a positive and significant relationship between sales growth and firm value.

Based on the results of the data processing, it suggests that the t test (partial) leverage findings have a significant influence on company value. This is indicated by the significance value of 0.0000 <0.05. In the multiple linear regression test, leverage and company value have a positive association, as shown by the coefficient value of 0.242187. This suggests that the firm value (PBV) may grow by 0.242187 for every unit increase in DER. As a result, leverage significantly affects firm value, and Ha4 is rejected since the data processing results do not support the hypothesis that was first established. The leverage value can characterize the company's finance approach; hence the data processing findings differ from the prior premise. A high DER number indicates the management of the organization is financing itself more through debt. This suggests that a firm's value is impacted by high levels of corporate debt; if a corporation can effectively employ debt for operations and grow, this will have an impact on the company's value. Investors think the company will be able to attract fresh money and increase in value if it can manage its debt. The study's findings are consistent with those of Oktaviarni, Murni, and Suprayitno (2019); Farizki, Suhendro, and Endang (2021) studies, which find that the research has a favorable direction and no effect on company value. The findings of this analysis contradict those of Herawan and Dewi's (2019) and Abundanti and Yanti's (2019) studies, which found that leverage affects business value.

Table 4. Hypothesis Results Based on T Test

Results	Hypothesis	Sign Test	Coefficient
H_{a1} is rejected	**Profitability has a significant positive effect on firm value**	0.0000<0.05	-0.014418
Ha2 is rejected	**Company size has a significant negative effect on firm value**	0.6403>0.05	-0.063363
Ha3 is rejected	***Sales Growth has a* significant positive effect on firm value.**	0.6458>0.05	-0.293462
Ha4 is rejected	***Leverage has a* significant negative effect on firm value**	0.0000<0.05	0.242187

4. CONCLUSIONS AND SUGGESTIONS

The research findings support the following conclusions: (1) As evidenced by a coefficient value of -0.014418, which shows negative results, and a prob. value of 0.0000 when the value is less than 0.05, profitability (ROA) has a significant impact on firm value. Lastly, firm value is not significantly impacted by the independent variable company size (SIZE), as

evidenced by the coefficient value of -0.063363, which displays negative findings, and the prob. value of 0.6403 where the value is>0.05. Contrary to H2, the analysis finds that firm value is not significantly impacted negatively by the size of the company. As a result, H2 is rejected. (3) Sales Growth (SG) has no appreciable effect on firm value, as indicated by its coefficient value of -0.293462, which indicates negative outcomes, and its prob. value of 0.6458, where the value is more than 0.05. According to the study's findings, there is no statistically significant relationship between sales growth and company valuation, so H3 is rejected. Furthermore, a strong impact of the independent variable leverage (LEV) on firm value is demonstrated by its coefficient value of 0.242187 and its prob.value of 0.0000, where the value is less than 5-percent. The study comes to the conclusion that leverage greatly raises business value, which is in opposition to H4 and causes H4 to be rejected.

Every research project has limitations, and this one is no exception. The following are some of the constraints of this study: (1) The study was restricted to four independent variables: leverage, sales growth, company size, and profitability; (2) The study's samples came from the population of infrastructure sector companies; and (3) The study's time frame was limited to three years, specifically 2019, 2020, and 2021.

Drawing from the study's limitations and findings, the researchers offer several recommendations for future research, including: (1) broadening the research topic to avoid being exclusive to infrastructure companies; (2) adding a period for additional research beyond the three-month limit; (3) Adding more independent variables to see the influence related to firm value as the dependent variable. (2) In the explanation, by expanding the research object, it will automatically expand the research subject as well, so as to get more research samples that are sufficient to describe the current situation, even though there is extreme data (abnormal) and needs to be outlier or eliminated. For example, *leverage*, capital structure, dividend policy, and others, so that there are many factors (independent variables) to be able to see that affect firm value as the dependent variable.

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