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# Effect of company growth, capital structure and profitability on firm value

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**INFO ARTIKEL**

*Keywords*:

*Firm value, firm growth, capital structure, profitability*

***Abstract***

*The purpose of this study was to analyze the effect of company growth, capital structure, and profitability on firmvalue in food and beverage subsector manufacturing companies listed on the Indonesia Stock Exchange in 2017-2022. This research is an associative study with a researchpopulation of 47 companies. The data collection method used is the sample survey method. The sample in this study amounted to 14 companies (84 observation data) selected by purposive sampling method. Company growth is proxied by changes in total assets, capital structure is proxied by Long term Debt to Equity Ratio (LtDER), profitability is proxied by Return to Equity Ratio (ROE), and firm value isproxied by Price to Book Value (PBV). The data analysis technique uses panel data regression analysis. The results of this study indicate that company growth has a negative and insignificant effect on firm value, capital structure has a negative and significant effect on firm value, and profitability has a significant positive effect on firm value. Companies should reduce the use of long-term debt and increase profitability ratios so that they can have an effect on increasing firm value.*

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## Introduction

Investment in the capital market can help companies raise funds for operational and expansion purposes. Through the sale of stocks and bonds, companies can raise funds at a lower cost than borrowing money from banks. Companies invest in the capital market also to achieve their long-term goals such as increasing company value, expanding business, and increasing company profits (Brigham & Houston, 2019).Firm value is the market value of all outstanding

common shares. This value reflects the market's estimate of the expected future cash flows of the company (Brigham & Houston, 2019). Firm value is something that includes a form of value to determine the long-term health and welfare of the company. This company value is very important because with a high company value, it will also be followed by high shareholder prosperity (Husnan & Pudjiastuti, 2013).

One approach used to determine stock valuation is Price to Book Value. Price to Book Value can be defined by the ratio resulting from the market price of a company's shares divided by its book value. PBV is a ratio that measures the value given by the financial market to the management and organization of the company as a company that is experiencing good performance and continues to grow (Brigham & Houston., 2019). PBV shows how far a company is able to create company value relative to the amount of capital invested, the ratio of the market price of a stock to its book value gives investors an indication of the company (Marlina, 2013). The higher the PBV value of a company, the better the company's prospects for the market. The advantage of PBV compared to PER (Price Earning Ratio) and Tobin's Q is that PBV is more suitable for companies that have physical or tangible assets such as manufacturing companies or property companies. This is because the company's book value can reflect the value of the physical assets owned by the company. Meanwhile, PER and Tobin's Q are more suitable for companies that have intangible assets, such as technology companies or service companies (Damodaran, 2012). Another advantage of PBV is that book value is a stable and simple measure that can be compared with market prices. PBV can be compared between similar companies to indicate whether a stock is expensive or cheap. This ratio can provide an overview of the potential price movement of a stock so that from this description, indirectly this PBV ratio also has an influence on stock prices (Aranta, 2021).

Factors that can affect firm value include firm growth, capital structure, liquidity, and profitability (Brigham & Houston, 2019). However, firm growth, capital structure, and profitability have a direct impact that can affect firm value. Therefore, it is important for companies to consider these factors when making business and investment decisions to increase firm value.

The first factor that can affect firm value is firm growth. Company growth is an increase in the size of the company through the addition of resources needed to increase company sales or profits. Company growth can be achieved in various ways such as increasing production, increasing total assets, developing new products or services, and so on (Brigham & Houston, 2019). Company growth is a ratio that shows the company's ability to maintain its economic position amid economic growth and its business sector (Suwardika & Mustanda, 2017). Company growth will reflect that the company will develop or not. According to Syardiana et al., (2015) company growth will result in a higher rate of return because growth has favorable aspects for investors.

The change in total assets is a decrease or increase in total assets owned by the company, asset growth is calculated as a percentage change in assets at a certain time against the previous year (Sartono, 2016). Based on the above definition, it can be explained that changes in total assets are either an increase or a decrease experienced by the company during one period (one year). According to Kim et al., (2018) good company growth will provide a positive signal to investors and the market about the future of the company's business, this will increase the stock price and company and company value. However, growth that is not balanced with good management can also affect company value. Growth that is too

fast can drain resources and capital, thus negatively affecting the efficiency and profitability of the company. In addition, too aggressive growth can also carry great risks and risk damaging the company's image if not managed properly. Research on how company growth can affect firm value has been conducted previously. In research conducted by Ramdhonah et al., (2019), Ukhriyawati & Dewi (2019), and Dhani & Utama (2017) show that company growth has a positive effect on firm value so that when company growth increases by one unit, the company value will also increase. However, in contrast to the results of research conducted by Amelia & Anhar, (2019), Suwardika & Mustanda (2017), and Tumangkeng, (2018) shows that company growth has a negative and insignificant effect on firm value.

The second factor that can affect firm value is capital structure. Capital structure is a description of the form of the company's financial proportion, namely between the capital owned which comes from long-term debt (long-term liabilities) and own capital (shareholder's equity) which is the source of financing a company, and the capital structure of a company consists of long-term debt and shareholder's equity, where stockholder equity consists of preferred stock and common equity, and common equity itself consists of common stock and retained earnings (Fahmi, 2013). According to Frederik et al., (2015) and Nugroho (2012), one of the factors that affect firm value is capital structure. Capital structure is an important issue for every company because the good and bad capital structure will have a direct effect on the company's financial position. An unoptimized capital structure will lead to a large cost of debt. If the company issues too many shares, the cost of capital borne by the company is also too large. With the good performance of the company will also increase the value of the company

The capital structure in this study is proxied by the Long term Debt to Equity Ratio. Long term Debt to Equity Ratio is a ratio measured from the comparison between long-term debt and equity (Kasmir, 2014). The aim is to measure how much part of the equity (own capital) is used as collateral for long-term debt. The greater this ratio indicates the greater the interest expense and long-term debt that must be paid so that it will reduce company profits. Research on capital structure with firm value has been conducted previously. Research conducted by Amelia & Anhar, (2019), Zuraida, (2019), and Nopianti & Suparno, (2020) shows that capital structure has a positive and significant effect on firm value so that it can be interpreted that each increase in capital structure by one unit will increase firm value. However, in contrast to research conducted by Dhani & Utama, (2017), Astari et al., (2019), and (Widyantari & Yadnya, 2017) which shows that capital structure has a negative and insignificant effect on firm value, which means that capital structure can have an impact on decreasing firm value.

The third factor that can affect firm value is profitability. Profitability is the company's ability to earn profits in relation to total assets, sales, and own capital (Sartono, 2016). According to Fahmi, (2013) profitability is to show the success of a company in generating profits. Potential investors will carefully analyze the smooth running of a company and its ability to earn corporate profits. The better the profitability ratio, the more it illustrates the company's high profit-making ability. According to Brigham & Houston (2019) profitability can affect firm value. If a company has high profitability, then the possibility of its company value will also increase. This is because companies that generate high profits can show good performance and can provide benefits for shareholders. One of the ratios used to measure the level of profitability is Return on equity (ROE).

Return on equity (ROE) is the rate of return on the company owner's equity. Owner's equity is the total net assets of the company. Return on equity or

return on net worth measures the company's ability to earn profits available to the company's shareholders (Sartono, 2016). Return on equity (ROE) is the rate of return on the company owner's equity. Owner's equity is the total net assets of the company. Return on equity or return on net worth measures the company's ability to earn profits available to the company's shareholders (Sartono, 2016). Return on equity is a very important ratio for company owners (the common stockholder), because this ratio shows the rate of return generated by management from the capital provided by company owners. In other words, ROE shows the benefits that will be enjoyed by shareholders. The growth of ROE shows the company's prospects are getting better because it means there is a potential increase in profits earned by the company. This is captured by investors as a positive signal from the company so that it will increase investor confidence and will make it easier for company management to attract capital in the form of shares. If there is an increase in demand for a company's shares, it will indirectly increase the share price in the capital market. There have been many studies that show the effect of profitability on firm value. Research conducted by Astari et al., (2019), Dhani & Utama, (2017), and Nopianti & Suparno (2020) shows that profitability has a positive and significant effect on firm value, this means that high profitability shows good company prospects that trigger demand for shares by investors. However, in contrast to research conducted by Ramdhonah et al., (2019), Zuraida, (2019), and Thaib, (2017) which shows that profitability has a negative and insignificant effect, which means that profitability has no meaning on firm value.

The food and beverage subsector is one of the sub-sectors on the Indonesia Stock Exchange (IDX) and is part of the manufacturing sector. Shares in this company are a type of defensive stock, namely stocks that tend to be more stable in times of economic recession or economic uncertainty. This happens because the company's products are needed by the public (Fahmi, 2013). The following is the average value of PBV, Firm growth, LtDER, and ROE in food and beverage subsector companies listed on the IDX for the period 2017-2022.

**Tabel 1 Average Value Of PBV,Firm Growth, Ltder, And ROE In Food And Beverage Subsector Companies Listed On The IDX For The Period 2017-2022**

| Description | Year | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
| PBV (x) | 5,32 | 6,60 | 3,36 | 2,76 | 3.69 | 2,35 |
| *Growth* (%) | 25 | 11 | 10 | 8 | 31 | 6 |
| LtDER (%) | 35 | 26 | 23 | 45 | 49 | 22 |
| ROE (%) | 13 | 11 | 11 | 4 | 5 | 14 |

Source: www.idx.co.id (2023)

From the table above, it can be seen the development of the average value of PBV, Growth, LtDER, and ROE in food and beverage subsector companies for the period 2017-2022, indicating that there are fluctuations from year to year. In 2018the average value of PBV increased by 1.28 times which previously in 2017 amounted to 5.32 times. The increase in PBV value was not followed by the

Growth,LtDER, and ROE factors which tended to decrease in 2018, this is certainly not in accordance with signaling theory which states that increases and decreases in profitability and company growth can be followed by increases and decreases in company value. The data shows the opposite where the level of profitability and company growth has decreased but the company value has increased significantly. In 2020 there was an increase in the use of long-term debt to 45 percent of total equity but the company value decreased to 2.76 times. Based on the theory of capital structure, the use of debt before reaching the optimal point can provide benefits to increase firm value, but the data shows that the increase in the use of long-term debt results in a decrease in firm value. This shows that additional financing through long-term debt is no longer effective in increasing firm value. Based on the description above, there are problems, namely business phenomena and research gaps. The business phenomenon that occurs is an increase in the level of PBV which is not followed by an increase in firm growth, LTDER, and ROE, therefore this is not in accordance with existing theory. Research gap is the difference in previous research findings related to firm value. This shows that there is a problem in the form of inconsistency which makes researchers decide to conduct research again.

## RESEARCH METHODS

This research is associative research. Associative research is one type of qualitative research that aims to determine the relationship or association between two or more variables (Ghozali, 2016). The population in this study are companies included in the food and beverage subsector listed on the Indonesia Stock Exchange during the 2017-2022 period, totaling 47 companies. Based on the sampling criteria determined by the researcher, a sample of 14 companies was obtained. This study uses a sample survey as a data collection method. The sample survey method is a collection method used if the researcher wants to examine some of the population elements as a sample (Ghozali, 2016). This study uses documentation techniques as data collection techniques. Documentation is a data collection technique that is carried out by collecting various documents related to research problems both from government documents, research results, books, financial reports and so on (Ghozali, 2016). The type of data used in this research is quantitative data. The data source in this study is a secondary data source. Secondary data sources are sources that present data derived from reports or publications conducted by other parties outside the company. The secondary source in this study is the official website of the Indonesia Stock Exchange (www.idx.co.id ). The data analysis used is panel dataregression analysis.

## RESULT

### Descriptive Statistical Analysis Test Results

| | PBV | PP | LTDER | ROE |
|---|---|---|---|---|
| Mean | 2.545542 | 0.128463 | 0.243233 | 0.133346 |
| Median | 2.571603 | 0.091013 | 0.185719 | 0.138611 |

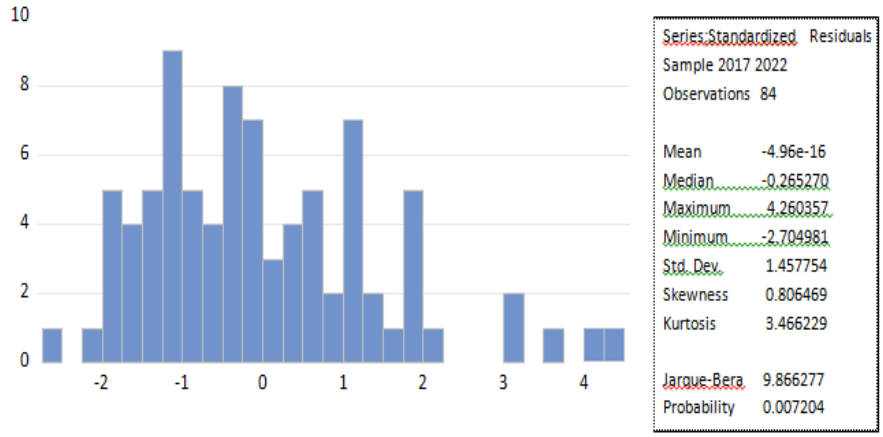
| | | | | |
|---|---|---|---|---|
| Maximum | 7.934928 | 1.676057 | 0.876308 | 0.274029 |
| Minimum | 0.266023 | -0.179468 | 0.016624 | 0.000135 |
| Std. Dev. | 1.730721 | 0.237680 | 0.216800 | 0.068523 |
| Skewness | 0.862564 | 3.695550 | 1.096901 | 0.040704 |
| Kurtosis | 3.520809 | 23.08751 | 3.659445 | 2.368009 |
| | | | | |
| Jarque-Bera | 11.36558 | 1603.477 | 18.36671 | 1.421138 |
| Probability | 0.003404 | 0.000000 | 0.000103 | 0.491365 |
| | | | | |
| Sum | 213.8255 | 10.79093 | 20.43161 | 11.20109 |
| Sum Sq. Dev. | 248.6179 | 4.688832 | 3.901202 | 0.389719 |
| | | | | |
| Observations | 84 | 84 | 84 | 84 |

Source: Output EVIEWS 12 (2023)

In the table above, we can see the average (mean), maximum value (max), minimum value (min), median, standard deviation, standard deviation, and minimum value (min). minimum (min), median, standard deviation, skewness, and kurtosis of 84 samples research. In PBV there is an average value of 2.54, so this illustrates the company's share price is valued at 2.54 times its book value. its book value. In Company Growth has a mean of 12.84 percent, this means the average increase in total assets company by 12.84 percent every year. Long term Debt to Equity Ratio (LtDER) has a mean value of 24.32 percent, this means that the company's long-term debt company reaches 24.32 percent of the total equity owned by the company. Return On Equity Ratio (ROE) has a mean value of 13.33 percent. mean of 13.33 percent, this means that every 100 rupiah of company equity can generate 13.33 rupiah of net profit.

**Normality Test**

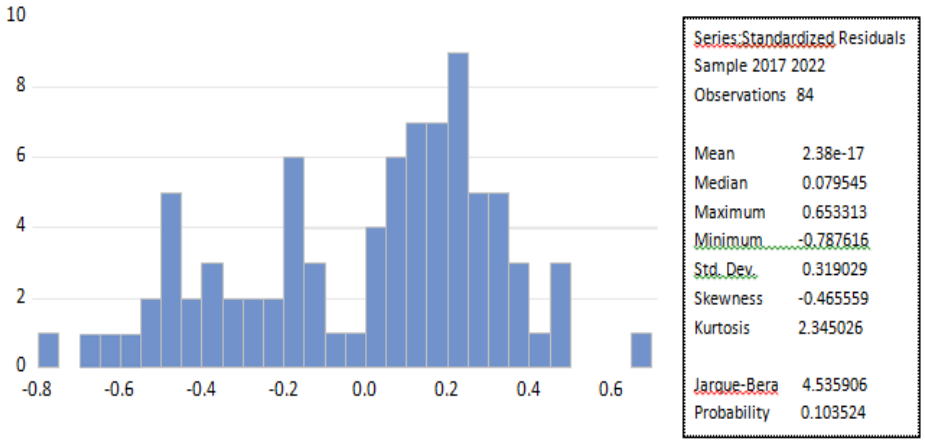
Normality test is a statistical procedure used to test whether a variable in a data sample has a normal distribution or not (Ghozali, 2016). The results of the normality test in this study can be seen in the following figure:




Source: Output EVIEWS 12 (2023)

**Figure 1 Normality Test Before Data Transformation**

Based on Figure 1, it can be seen that the Jarque-Bera (JB) probability value is 0.007204, which is smaller than the significance value of 0.05 or 5%. So it can be concluded that the data is not normally distributed. Because the data in this test is not normally distributed, it is necessary to treat the data normality by changing the regression model in semi-log form, that is, the variables are changed to log form or natural logarithm (Ln) (Matandang and Nasution, 2021). The results obtained after transforming the data are as follows:




Source: Output EVIEWS 12 (2023)

**Figure 2 Normality Test After Data Transformation**

The normality test results after transformation show a Jarque-Bera (JB) probability value of 0.103524. Where this value is greater than the significance value of 0.05 or 5%. So it can be concluded that the data is normally distributed.

**Classical Assumption Test**

The classic assumption test in this study is a test of three classic assumptions, namely: multicollinearity, autocorrelation, and heteroscedasticity. The multicollinearity test is seen from the correlation coefficient between variables which is greater than 0.8. If between variables there is a correlation coefficient of more than 0.8 or close to 1, then 2 or more independent variables occur multicollinearity. The multicollinearity test results show that the correlation coefficient between the variables of company growth, capital structure, and profitability is not more than 0.8, which means that there is no multicollinearity problem in the regression model.

Autocorrelation is a test conducted to see whether in the regression model there is a correlation between confounding errors in period t and confounding errors in period t-1 (previous) If autocorrelation occurs, it is called an autocorrelation problem. A good regression model is a regression model that is free from autocorrelation (Ghozali, 2016). The autocorrelation test in this study was carried out by looking at the Durbin-Watson (DW) number in the regression model. It is said that there is no positive or negative autocorrelation if the value du < d < 4-du. The autocorrelation test results show the Durbin-Watson (DW) value of 0.347229. The Upper Durbin-Watson value with a sample size (t) of 84, a sample period of 6 and the number of independent variables (k) 3 has a value of 1.7199. The equation from the formula du < d < 4-du is formed as 1.7199 > 0.433248 <

2.2801. Judging from the DW test results, it shows the presence of autocorrelation symptoms. According to Basuki and Prowoto (2017) the autocorrelation test should not be used in every panel data regression. Because the autocorrelation test can only be used on time series data, so autocorrelation testing performed on panel data is meaningless. Therefore, research using panel data can ignore the autocorrelation test.

Heteroscedasticity is a test conducted to see if there is an inequality of variance from the residuals of one observation to another. If the variance of the residuals of one observation to another observation remains, it is called homoscedasticity but if it is different it is called heteroscedasticity (Ghozali, 2016). The heteroscedasticity test in this study uses the Glejser test. The results of the heteroscedasticity test with the Glejser test show the Obs * R-squared probability value of 0.0766, which is greater than the significant value of 0.05 or 5%. So it can be concluded that in this study there are no symptoms of heteroscedasticity in the regression model.

**Panel Data Regression Analysis**

After carrying out various stages of data processing starting from the descriptive statistical analysis test, normality test, classical assumption test to the panel data model selection test, the next stage is to test the panel data regression equation model. The results of the panel data regression equation model test were carried out to test the hypothesis of the study. The selected model is the Random Effect Model (REM). This model can represent the objectives of this study. The test was conducted using the EViews 12 application with the following results:

**Tabel 3 Panel Data Regression Analysis Results**

Dependent Variable: LOG_Y
Method: Panel EGLS (Cross-section random effects)
Date: 10/21/23 Time: 01:16
Sample: 2017 2022
Periods included: 6
Cross-sections included: 14
Total panel (balanced) observations: 84
Swamy and Arora estimator of component variances

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| C | 0.194722 | 0.093217 | 2.088903 | 0.0399 |
| LOG_X1 | -0.025972 | 0.074159 | -0.350216 | 0.7271 |
| LOG_X2 | -0.322218 | 0.115455 | -2.790858 | 0.0066 |
| LOG_X3 | 1.294871 | 0.378607 | 3.420093 | 0.0010 |

| Effects Specification | S.D. | Rho |
|---|---|---|

| | | | |
|---|---|---|---|
| Cross-section random | | 0.260990 | 0.7778 |
| Idiosyncratic random | | 0.139488 | 0.2222 |
| Weighted Statistics | | | |
| Root MSE | 0.139066 | R-squared | 0.227560 |
| Mean dependent var | 0.060900 | Adjusted R-squared | 0.198593 |
| S.D. dependent var | 0.159181 | S.E. of regression | 0.142501 |
| Sum squared resid | 1.624514 | F-statistic | 7.855952 |
| Durbin-Watson stat | 1.262203 | Prob(F-statistic) | 0.000117 |
| Unweighted Statistics | | | |
| R-squared | 0.204267 | Mean dependent var | 0.285677 |
| Sum squared resid | 8.204052 | Durbin-Watson stat | 0.249933 |

Source: Output EVIEWS 12 (2023)

Based on the panel data regression test results above, the following regressionequation is obtained:

PBV = 0,194722 – 0,025972 Firm Growth – 0,322218 LtDER + 1,294871 ROE

**F Test (Goodness Of Fit)**

The f test in this study was conducted to determine whether a regression model was feasible or not to be used as an analytical tool in testing the effect between the independent variable and the dependent variable. To analyze the f test, it is necessary to pay attention to the F-Statistic value and the probability of the F- Statistic in table 3 of the panel data regression equation model above. The results of the model feasibility test in this study show that the F-Statistic value is 7,855952 and the F-Statistic probability value is less than 0.05 or 5%, namely 0.000117 < 0.05. So it can be concluded that this panel data regression analysis model is feasible to use in research.

**Test t (Influence)**

The results of the panel data regression analysis in Table 3 show that the company growth variable (X1) has a significance probability value of 0.7271 and more than 0.05 or 5%. So it can be concluded that company growth has no effect on firm value. The capital structure variable (X2) has a significant probability value of 0.0066 and less than 0.05 or 5%. The coefficient value shows that capital structure has a significant negative effect on firm value. The profitability variable (X3) has a significant probability value of 0.0010 which is less than 0.05 or 5%. This value indicates that profitability has a significant positive effect on firm value.

**Coefficient of Determination (Adjusted R2)**

The coefficient of determination (Adjusted R2) is actually done to measure how far the ability of the model used in explaining the variation in the dependent variable. The coefficient of determination (Adjusted R2) is between zero and one. Based on the results of the panel data regression analysis above, the Adjusted R2 value is 0.285677. This figure shows that the independent variables in this study consisting of company growth, capital structure, and profitability can affect firm value by 0.162719 or the independent variables in this study are able to explain their influence by 28.56% on firm value. While the other 71.44% is influenced by

factors not explained in this study.

## DISCUSSION

### The Effect of Company Growth on Company Value

Based on the results of the regression analysis, the company growth coefficient is -0.025972 and the probability value is 0.7271, which means that every decrease in company growth by 1 unit will affect the increase in firm value by -0.025972 units. However, the decrease in company growth does not affect the movement of firm value. These results prove that H1 is rejected and H0 is accepted, which means that company growth has a negative and insignificant effect on firm value. Company growth proxied by total asset growth is not a predictor factor that can affect firm value.

Signaling theory explains the actions taken by the company in signaling to outsiders in providing clues to the success or failure of how a company's performance results. One of the outside parties in question is shareholders, where outsiders have little information about the company (Brigham & Houston, 2019). The results of this study contradict Signalling theory in which company growth information proxied by total asset growth is expected to provide positive signals to investors regarding the company's ability to develop its assets and the company's expansion potential. However, the results of the above study prove that the information provided by the company through an increase in the company's total assets is responded negatively by investors or shareholders. High growth causes the need for funds to increase. The greater the company's growth rate, the higher the costs required for investment. The higher the company's growth rate, the less funds available for distribution to investors or shareholders. Investors prefer companies that are well established and not growing. Therefore, high company growth will not affect investor confidence so that it does not affect company value.

### Effect of Capital Structure on Firm Value

The coefficient value of capital structure is -0.322218 and the probability value is 0.0066 which means that every decrease in the company's long-term debt by 1 unit will affect the increase in firm value by 0.322218 units. This result proves to reject H2 and accept H0 which means that capital structure has a negative and significant effect on firm value. This shows that the company's capital structure proxied by LtDER is responded inversely by investors so that it can reduce the company's value.

These results are certainly not in line with trade-off theory. Trade Off Theory explains the benefits and sacrifices that grow when a company funds the company with debt. The greater the debt owned by a company, the greater the risk of the company. So as long as the company has not reached the optimal point, then funding through debt can increase the value of the company. Trade Off Theory states that companies exchange tax benefits on debt funding for problems caused by potential bankruptcy. Thus, the theory explains that when the capital structure is above the optimal point target, any increase in debt will reduce the value of the company. The higher the debt used to finance the company's operations, the lower the company's value. Because with a high level of debt, the risk of bankruptcy of the company can no longer be exchanged for the benefits of using debt to finance the company and the burden borne by the company is also getting bigger.

**Effect of Profitability on Firm Value**

The coefficient value is 1.294871 with a significant probability value of 0.0010, which means that every increase in ROE by 1 unit will affect the increase in firm value by 1.294871 units. These results prove H3 is accepted, which means profitability has a positive and significant effect on firm value. This means that the company's profitability level is valued positively by investors so that it can increase the company's value.

This result is in line with signaling theory. Signalling theory explains the actions taken by the company in signaling to outsiders in providing clues to the success or failure of how the results of a company's performance. That way the company's efforts in providing information on the level of profitability can affect the perception of investors and provide a positive response so that it can affect the increase in company value. High profitability shows good prospects for the company so that it triggers demand for shares by investors. High company profitability will increase company value because from an investor's perspective, a company that is able to generate high profitability means that the company is able to manage the capital owned by the company, including the share capital that investors have invested well. This can further add to investor confidence that the capital owned has been utilized in profitable investments, so that investors' decisions in investing their shares in related companies are the right decision. High profitability will be responded positively by the market by appreciating the stock price, otherwise the market will react negatively when the company's profitability is getting lower so that it will result in a lower stock price which will have an impact on the firm's value.

**CONCLUSION**

This study provides evidence that company growth cannot affect firm value. This is evidenced by the negative regression coefficient and the significance level of the company growth variable is less than 0.05 or 5%. These results contradict Signalling theory in which company growth information proxied by total asset growth is expected to provide positive signals to investors related to the company's ability to develop its assets and the company's expansion potential. However, the results of the research above prove that the information provided by the company through an increase in the company's total assets is responded negatively by investors or shareholders. High growth causes the need for funds to increase. The greater the company's growth rate, the higher the costs required for investment. The higher the company's growth rate, the less funds available for distribution to investors or shareholders. Investors prefer companies that are well established and not growing. Therefore, high company growth will not affect investor confidence so that it does not affect company value.

This study provides evidence that capital structure has a negative and significant effect on firm value. This is because the regression coefficient value of capital structure is negative and the significant level is smaller than 0.05 or 5%. This finding is certainly not in line with trade-off theory. Trade Off Theory explains the benefits and sacrifices that grow when a company funds the company with debt. The greater the debt owned by a company, the greater the risk of the company. So as long as the company has not reached the optimal point, then funding through debt can increase the value of the company. Trade Off Theory states that companies exchange tax benefits on debt funding for problems caused by potential bankruptcy. Thus, the theory explains that when the capital structure is

above the optimal point target, any increase in debt will reduce the value of the company. The higher the debt used to finance the company's operations, the lower the company's value. Because with a high level of debt, the risk of bankruptcy of the company can no longer be exchanged for the benefits of using debt to finance the company and the burden borne by the company is also getting bigger.

This study provides evidence that profitability has a positive and significant effect on firm value. This can be seen from the regression coefficient value which is positive and the significant level which is smaller than 0.05 or 5%. Signaling theory explains the actions taken by the company in signaling to outside parties in providing clues to the success or failure of how the results of a company's performance. That way the company's efforts in providing information on the level of profitability can affect the perception of investors and provide a positive response so that it can affect the increase in company value. High company profitability will increase company value because from an investor's perspective, a company that is able to generate high profitability means that the company is able to manage the capital owned by the company, including the share capital that investors have invested well. This can further add to investor confidence that the capital owned has been utilized in profitable investments, so that investors' decisions in investing their shares in related companies are the right decision. High profitability will be responded positively by the market by appreciating the stock price, otherwise the market will react negatively when the company's profitability is lower so that it will result in a lower stock price which will have an impact on the company's value.

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