



The Effect of Liquidity, Profitability and Leverage on Firm Value

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Abstract. A high company value will convince the market of the firm's potential as well as its existing performance. This study aims to determine the effect of liquidity, profitability and leverage on the value of pharmaceutical sector companies in 2017–2021. This study uses panel data regression with the help of the eviews10 program. The conclusion from this study is that simultaneously CR, ROA and DER have a positive and significant impact on firm value. However, partially ROA has a positive and significant effect on firm value, while CR and DER have a negative and significant effect on firm value.

Keywords: Liquidity · Profitability · Leverage · Firm value

1 Introduction

In the midst of increasingly fierce and global business and business competition, companies need to maximize corporate value. Because this can create prosperity for shareholders, and can automatically increase the value of the company [1]. The higher the value of a company, the higher the confidence of shareholders to invest [2]. To find out the company's value from the stock price, you can use the Price to Book Value (PBV) ratio, which is the ratio between the stock price and the book value.

In the midst of a world full of epidemics, namely Covid-19, a company or industry is forced to keep getting up despite being hit by anxiety due to falling consumer demand caused by this virus. Quoted from the CNN Indonesia website, (June 21 2022), the Central Bureau of Statistics (BPS) recorded Indonesia's economic growth in the second quarter of 2020 was minus 5.32%, this figure was inversely proportional to the second quarter of 2019 of 5.05% which was caused by the Covid-19 -19. However, not all industrial sectors have experienced negative things due to this virus. For example, the pharmaceutical sector. When Covid-19 entered Indonesia, the demand for vitamins, supplements and medicines for the body's immunity increased [3]. This is what has a positive impact on the pharmaceutical sector in increasing the value of its company (Lesmana & Iskandar, 2020).

The liquidity ratio is the company's ability to meet its short-term obligations appropriately. The liquidity ratio is often referred to as short term liquidity [4]. With the indicator used, namely the Current Ratio (CR), is the ability of a company to meet its short-term debt, by dividing current assets with current liabilities [4].

Profitability ratio is a ratio to assess a company's ability to make a profit. Profitability ratios can also show the efficiency of the company [5]. Profitability ratios with indicators Return On Assets (ROA), can be calculated by dividing earnings before interest and taxes by total assets. Leverage or commonly called the solvency ratio is a ratio used to measure how much a company is financed with debt [4]. The indicator used is the Debt to Equity Ratio (DER) by dividing total debt by own capital.

2 Literature Review

2.1 Theory Review

2.1.1 The Value of the Company

Firm value is an investor's perception of the level of success of managers in managing company resources which is often associated with stock prices. Firm value can increase the company's stock price which will reflect an increase in the prosperity of investors [6]. An investor will definitely be interested in investing if a company has a relatively high profit generated by the company. Company value can be calculated using Price to Book Value (PBV), namely by dividing the price per share by the book value per share.

2.1.2 Liquidity

The problem of the company's ability related to liquidity to meet its financial obligations in meeting needs. The company's liquidity will show the ability to pay short-term debt obligations on time [7]. Company liquidity is the ability of a company to fulfill its short-term obligations to short-term creditors [8]. Liquidity can be measured using the current ratio (CR). The current ratio (CR) is used to measure a company's liquidity by dividing current assets by current liabilities.

2.1.3 Profitability

Profitability ratio is a ratio to assess a company's ability to make a profit. Profitability ratios can also show the efficiency of the company [5]. Profitability ratios with indicators Return On Assets (ROA), can be calculated by dividing earnings before interest and taxes by total assets. Profitability ratio is the net result of a number of policies and decisions chosen by the management of an organization. Profitability ratios indicate how effectively the entire company is managed [9].

2.1.4 Leverage

Leverage is a ratio that describes a company's ability to fulfill all of its obligations [10]. Leverage or commonly called the solvency ratio is a ratio used to measure how much a company is financed with debt [4]. The indicator used is the Debt to Equity Ratio (DER) by dividing total debt by own capital.

2.2 Previous Research

Research by Martonius et al. (2020) entitled “The Influence of Liquidity, Leverage and Profitability on Firm Value in the Manufacturing Sector 2015–2017”. This study aims to determine the effect of liquidity, profitability and leverage on firm value. The results of his research show that simultaneously firm value is significantly influenced by profitability, liquidity and leverage. Partially, profitability and liquidity have a positive effect on firm value, while leverage has no positive effect on firm value.

Putu & Kajeng (2019) with the research title Effects of profitability, leverage and liquidity on company value in the Food & Beverages sector. The results of his research show that simultaneously profitability, leverage and liquidity have a significant effect on firm value. Partially, profitability has a significant positive effect on firm value, leverage has no significant negative effect on firm value, and liquidity has a significant positive effect on firm value. Previous research conducted by LWKaruni and NMSuci (2022) with the title “The Influence of Company Growth and Profitability on Company Value in the Pharmaceutical Sub-Sector on the IDX”. This type of research uses causal quantitative research, with the aim of knowing to determine the effect of company growth and profitability on firm value. The results of this study are, company growth and profitability have an effect on firm value by 55.5%, company growth has no significant effect on firm value, and profitability has an effect on firm value.

Markonah, Agus, and Johana (2020) with their research title “Effect Of Profitability, Leverage, and Liquidity To The Firm Value”. This type of research uses quantitative with panel data regression method with the Fixed Effect model. The results showed that Profitability (ROA), Leverage (DER) had an effect on firm value, while Liquidity (CR) had no effect on firm value. Research by Ardina and Isnalita (2018) entitled “The Effect of Profitability, Liquidity, Leverage and Firm Growth of Firm Value with its Dividend Policy as a Moderating Variable”. This study aims to examine the effect of liquidity, profitability, leverage and company growth on firm value. The results of this study show that profitability and company growth have an effect on firm value, while liquidity and leverage have no effect on firm value. Exaudi, Agung and Nawi (2022) with their research entitled “The Effect of Profitability, Liquidity and Leverage on Stock Return in the Food and Beverage Subsector Manufacturing Companies on the IDX 2017- 2020”. The research uses a quantitative approach, with a sample of 17 companies. The results of his research show that partially profitability, liquidity and leverage have a positive impact on stock returns, while simultaneously profitability, liquidity and leverage have a negative impact on stock returns.

2.3 Hypothesis Development

Liquidity Affects Company Value

Research on liquidity measurement uses the Current ratio (CR) indicator. The Current Ratio (CR) shows that the higher the ratio of current assets to current liabilities, the higher the company’s ability to cover its short-term obligations [11]. Liquidity is a major consideration in dividend policy. If the greater the company’s cash position and liquidity, the greater the company’s ability to pay dividends [12]. The amount of the company’s dividend ability will make the company’s value in the eyes of investors good.

So that liquidity affects the value of the company. This is in line with research from Martonius et al. (2020) with the results of his research that liquidity has a significant effect on firm value.

Profitability Affects Company Value

With the Return On Assets (ROA) indicator, the higher the ROA, the higher the rate of return on investment [12]. Investors before investing need to look at the company’s ROA, which will reflect the value of the company. The results of research by Putu & Kajeng (2019) show that profitability affects company value.

Leverage Affects Company Value

Leverage or commonly called the solvency ratio is a ratio used to measure how much a company is financed with debt [4]. Leverage represented by the Debt to Equity Ratio (DER). The results of research from Ardina and Isnalita (2018) show that profitability has a significant influence on company value.

Liquidity, Profitability and Leverage Affect the Value of the Company.

Liquidity is the company’s ability to pay its short-term debt, profitability of the company’s ability to make a profit and leverage is the company’s ability to meet its long-term obligations in increasing the value of the company. In the research of Martonius et al. (2020) The results of his research showed that simultaneously the profitability of leverage, and liquidity have a significant effect on the value of the company (Table 1).

2.4 Framework

Research Hypothesis

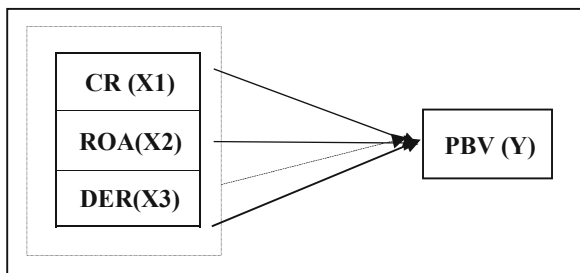
H1: It is suspected that Liquidity has an effect on the Company Value of the Pharmaceutical Sub Sector 2017- 2021.

H2: It is suspected that Profitability has an effect on Company Value in the Pharmaceutical Sub-sector 2017- 2021.

H3: Suspected Leverageinfluence on the 2017–2021 Pharmaceutical Sub Sector Company Value.

H4: It is suspected that liquidity, profitability and leverage have an effect on the value of pharmaceutical sub-sector companies 2017–2021.

Table 1. Thinking Framework



Source: Theory Study, 2022

3 Methods

This study uses quantitative research. Quantitative research is one of the studies whose specifications are systematic, planned, and clearly structured from the start to the making of the research design [13]. The source of research in this study is using secondary data. Namely in the form of financial reports for the pharmaceutical sub- sector for 2017–2021 which can be accessed via the official website of the Indonesia Stock Exchange (ww.idx.co.id). The data collection technique in this research is to collect information in the form of documentation data and literature study (Table 2).

Operationalization Variable

The variables in this study consist of independent variables and dependent variables or x and y variables. Liquidity with Current ratio (X1), Profitability with Return On Assets (X2), leverage (X3) and company value with Price to Book Value (Y) (Table 3).

The sample selection was carried out using a non- probability sampling technique using purposive sampling. Purposive sampling is a sampling technique with certain considerations or certain choices [13]. The provisions that apply are as follows:

- The pharmaceutical sub-sector is listed on the IDX from 2017 to 2021
- The Pharmaceutical Sub Sector published its financial reports on the IDX from 2017 to 2021

Table 2. Operationalization Variables

Variabel	Variable Definition	Formula	Scale
Price Book to Value (PBV)	A ratio used to compare book value to current market prices	$PBV = PRICE/BPVS$	Ratio
Current Ratio (CR)	Measures a company ability to meet its short-term debt	$CR = \text{Current Assets}/\text{current Liabilities} \times 100$	Ratio
Return On Assets (ROA)	Measures the company ability to generate profits from its assets	$ROA = \text{Net Income}/\text{Total Assets} \times 100$	Ratio
Debt to Equity Ratio (DER)	Measures the company ability to assess how much of the companys funds are obtained from equity and debt	$DER = \text{Total Liabilities}/\text{Total Equity} \times 100$	Ratio

Data source processed by researchers (2022)

Table 3. Determination Research Sample

Information	Total
Pharmaceutical Sector Company registered at <u>IDX 2017–2021</u>	11
Pharmaceutical companies whose financial statements are not complete with reports financial needs of researchers	-4
Total companies that were sampled	7
Total Observations (7 companies x5 years)	35

Data source processed (2022)

- Have the completeness of the data needed during the research. Including net profit, total assets, liabilities, equity, cost per share, book valuation per share, outstanding total shares.

Technique analysis data on study this that is using descriptive statistical analysis, with a panel data regression analysis model assisted by Eviews software 10. Analysis Panel data regression, namely there are three forms of the common effect model, the fixed effect model and the random effect model. Panel data regression analysis can be formulated as follows:

$$PBV_{it} = \alpha_{it} + \beta_1 CR_{it} + \beta_2 ROA_{it} + \beta_3 DER_{it} + \epsilon_{it} \quad (1) \text{ Description:}$$

PBV: The value of the company

β : Regression Coefficient

CR: Liquidity

ROA: Profitability

DER: leverage

α : Constant

i: Company data

t: Time Period

ϵ : Residual Error (error)

4 Research Result

4.1 Descriptive Statistical Analysis

From the table above it can be seen that the variable (X1), namely the Current Ratio, has an average of 3.024909, which means that the average profit earned by the company is 3.024909. The highest current ratio is 7.812200 and the lowest is 0.897700. The variable Return On Assets (ROA) (X2) can be seen from the table above, namely the average value is 0.125666, the highest Return On Assets (ROA) value is 0.920900 and the lowest value is 0.000800 and a deviation of 0.155062 with a total of 30 observations. Therefore the higher the value of Return On Assets obtained, the better the value of the company. The Debt Equity Ratio (DER) variable (X3) can be measured by dividing total debt by total assets, so that an average value of 0.549626 is obtained, which means that the average profit earned by the company is 0.549626. The highest value was obtained at 1.732300

Table 4. Descriptive Statistics

	CR	ROA	DER	PBV
Means	3.024909	0.125666	0.549626	3.088046
Median	2.888900	0.091600	0.448500	2.416600
Maximum	7.812200	0.920900	1.732300	7.475500
Minimum	0.897700	0.000800	0.090500	0.849400
std. Dev.	1.352542	0.155062	0.447470	1.956398
Skewness	1.032218	4.010392	1.468383	0.726792
kurtosis	5.709954	21.08484	3.868508	2.528004
Jarque - Bera	16.92505	570.7835	13.67757	3.406207
probability	0.000211	0.000000	0.001071	0.182117
sum	105.8718	4.398300	19.23690	108.0816
Sum Sq.Dev.	62.19854	0.817502	6.807787	130.1347
Observation ns	35	35	35	35

Source: Output Eviews 10 (2022)

and the lowest value was at 0.090500. Finally, the variable Price to Book Value (PBV) (Y) is measured by dividing the price per share by the book value per share, an average of 3.088046 is obtained, which means that the average company profit is 3.088046. The highest PBV value is 7.475500 and the lowest value is 0.849400 (Table 4).

4.2 Selected Model Test

After obtaining a sample that meets the criteria, estimation is carried out using 3 panel data models, namely the Common Effect model, the fixed effect model and the Random effect model. Following are the results of the Chow test using Eviws 10 (Table 5).

Based on the Chow test, the prob value of 0.00 is less than 0.05, so H₀ is rejected and H₁ is accepted, it can be concluded that the correct model is the Fixed effect model (Table 6).

Table 5. Chow test

Redundant Fixed Effects Test			
Equation: MODEL_FEM			
Test cross-section fixed effects			
Effect Test	Statistic	d.f	Prob.
Cross-section F	10.258172	(6,25)	0.0000
Cross-section Chi-square	43.464235	6	0.0000

Source: Eviews Output 10 (2022)

Table 6. Hausman’s test

Correlated Random Effect – Hausman Test			
Equation: MODEL_FEM			
Test cross-section random effects			
Effect Summary	Chi-Sq. Statistic	Chi-Sq d.f	Prob.
Cross-section random	59.201586	3	0.0000

Source: Eviews Output 10 (2022)

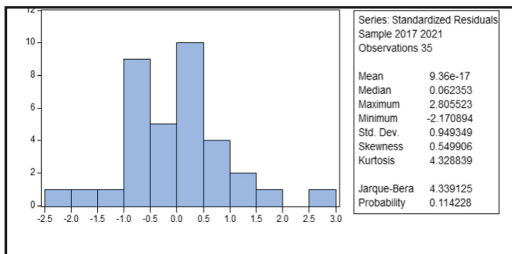
Based on the results of the Hausman test above, it can be seen that the chi square table for the degree of freedom is 3, while the chi square statistic is 59.201586, and the prob value is 0.00 which is less than $\alpha = 0.05$ so that H0 is rejected and H1 is accepted. So it can be concluded that the ight model to use is the Fixed effect model (FEM).

4.3 Classic AssumptionTest

After getting the best model, it is continued with the classical assumption test with the selected model, namely the Fixed Effect Model (FEM). The classical assumption test is carried out before processing the data so that the resulting equation meets the requirements.

4.3.1 Normality Test

Normality test results from the eviews 10 application can be carried out with the Jarque-Berra test (JB test) to test the normal hypothesis. If the JB test probability value is > 0.05 , the data is normally distributed and vice versa From the table below it can be seen that the probability value of JB is equal to 0.11 where the value is greater than $\alpha = 0.05$. It can be concluded that the data is normally distributed (Fig. 1).



Source:Output Eviews 10 (2022)

Fig. 1. Normality Test

Table 7. Multicollinearity Test

CRA	1.000000	0.096509	-0.749158
ROA	0.096509	1.000000	0.039861
DER	0.039861	0.039861	1.000000

Source: Output Eviews 10 (2022)

Table 8. Autocorrelation Test

R-squared	0.176698	Mean dependent var	-5.08E-16
Adjusted R-squared	0.034749	S.D. dependent var	1.766392
S.E of regression	1.735430	Akaie info criterion	4.095193
Sum squared resid	87.33982	Schwarz criterion	4.361824
Log likelihood	-65.66587	Hannan-Quinn criter	4.187234
F-statistic	1.244798	Durbin-Waston stat	1.861985
Prob(F-statistic)	0.314095		

Source: Output Eviews 10 (2022)

4.3.2 Multicollinearity Test

Multicollinearity test was conducted to find out whether there is a high correlation between the independent variables in the linear regression mode. If the correlation coefficient value is higher than 0.8, it can be concluded that multicollinearity occurs (Table 7).

From the results of the Eviews output in the table above, you can see that there are no independent variables that have a correlation coefficient above 0.80 so it can be concluded that this study is free from multicollinearity problems (Table 8).

4.3.3 Autocorrelation Test

The Durbin Watson value that comes out of the Eviews output data above is 1.8619 which is greater than the DU value of 1.7364. So it can be concluded that there is no autocorrelation of the variables in this study.

4.3.4 Heteroscedasticity Test

If the probability value $> \alpha = 0.05$, then there is no heteroscedasticity and vice versa (Table 9).

Based on the results of the Eviews output contained in the table above, the probability value of chi square is $0.35 >$ from $\alpha = 0.05$, so it can be concluded that there is no heteroscedasticity problem.

Table 9. Heteroscedasticity Test

Heteroskedasticity Test: Glejser			
F-statistic	1.063922	Prob. F(3,31)	0.3786
Obs*R-square	3.267214	Prob. Chi-Square(3)	0.3522
Scales explained SS	2.277545	Prob. Chi-Square(3)	0.5168

Source: *Output Eviews 10 (2022)*

Table 10. Test the Coefficient of Determination

R-squared	0.764529
Adjusted R-squared	0.679759

Source: *OutputsEviews 10(2022)*

4.4 Hypothesis Testing

4.4.1 Determination Coefficient Test

Adjusted R-square to measure how far the model’s ability to explain the dependent variation (Table 10).

Based on the results of the Eviews output, the R- Adjusted number is largeR-square (R2) is 0.679759. This shows that the effect of the independent variable on the dependent variable is 67.97%. Or it can be interpreted that 67.97% is given to the CR, ROA and DER variables together on firm value, while the remaining 32.03% is influenced by other independent variables that are not included in this study.

4.4.2 Test (Simultaneous)

F test is used to determine whether the variablex jointly affects the dependent variable. With a decision of $\alpha = 0.05$, if the p-value $> \alpha$, then H0 is accepted and Ha is rejected and if the p-value $< \alpha$, then H0 is rejected and Ha is accepted. Hypothesis.

$$H_0: \beta_1, \beta_2, \beta_3 = 0$$

$$H_a: \beta_1\beta_2, \beta_3 \neq 0$$

Based on the results of the F test, it can be seen that the Prob(F-Statistics) value shows 0.000006, where $0.000006 < \alpha$, then H0 is rejected and Ha is accepted. So it can be concluded that the CR, ROA and DER variables together have a positive influence on firm value (Table 11).

Table 11. F test

F-statistic	9.018911
Prob(F-statistic)	0.000006

Source: *OutputsEviews 10 (2022)*

4.4.3 T Test (Partial)

The t test is a test that is carried out to test the regression partially, which shows how far the influence of an individual explanatory variable in explaining the variation of the dependent variables with eviews software. With Hypothesis:

Current ratio (CR) $H_0: \beta_1 = 0$ $H_a: \beta_1 \neq 0$

Return On Assets (ROA) $H_0: \beta_2 = 0$

$H_a: \beta_2 \neq 0$

Debt to Equity Ratio(DER) $H_0: \beta_3 = 0$

$H_a: \beta_3 \neq 0$

Criteria for decision making if H_0 is accepted if $-t_{count} \geq -t_{table}$ or $t_{count} \leq t_{table}$ (there is no significant effect between the independent variables and the dependent variable). Then H_0 is rejected if $-t_{count} < -t_{table}$ or $t_{count} > t_{table}$ (there is a significant influence between the independent variable and the dependent variable) (Table 12).

From the output data of Eviews 10, the criteria for the t test are carried out at the level $\alpha = 5\%$ (0.05) with a value of $n = 35 - 4 = 31$. With a value $Q_{table} = 2,039$.

1. The Current Ratio (CR) variable partially influences firm value (PBV). This is because $-t_{count} < -t_{table}$ where is the value of $-2,354 < -2,039$ or a probability value of less than 0.05, which is 0.0267, so H_0 is rejected and H_a is accepted. The effect is negative because the calculated t value is negative and significant, meaning that if the Current Ratio increases, the PBV will decrease.
2. The variable Return On Assets (ROA) partially influences firm value (PBV). It can be seen that $t_{count} > t_{table}$, where the value is $3,203 > 2.039$ or the probability value is less than 0.05 of 0.0037 so that H_0 is rejected and H_a is accepted. The effect is positive because the calculated t value is positive, which means that if ROA increases, PBV also increases.
3. The Debt to Equity Ratio (DER) variable has an effect on firm value (PBV). This is because of value- $t_{calculate} < -t_{table}$, that is, the value is $-3.437 < -2.039$, or the probability value is 0.0021 which is less than 0.05 so that H_0 is rejected and H_a is accepted. It has a negative and significant effect because the t count is negative, so if DER increases PBV will decrease.

Table 12. T test

Variabel	Coefficient	Std. Error	T-Statistic	Prob.
C	7.884155	1.299254	6.068217	0.0000
CR	-0.650045	0.276090	-2.354465	0.0267
ROA	9.008261	2.812120	3.203370	0.0037
DER	-7.208202	2.097006	-3.437378	0.0021

Source: Output Eviews 10 (2022)

5 Discussion

1. Effect of Current ratio on Firm Value

From the research results, it was found that the Current Ratio (CR) has a negative and significant effect on firm value. Where the value of $-t$ count $<$ from $-t$ table is $-2,354 < -2,039$ or the probability value is less than 0.05, which is equal to 0.0267. Which hypothesis was previously rejected or not in accordance with the results obtained on the test. Which means if the current ratio increases it will cause the company value to decrease. The situation of excess current assets in the company is also not good, because many assets are not used properly.

2. Effect of Return On Assets on firm value

From the research results, it was found that ROA has a positive and significant effect on firm value. Where the value of t count $>$ t table, is $3,203 > 2,039$ or the probability value is less than 0.05 of 0.0037. So that the previous hypothesis was accepted because it was in accordance with the results of the test. Which if ROA increases then the value of the company also increases.

3. The Effect of Debt to Equity on Firm Value

From the research results, it was found that DER has a negative and significant effect on firm value. Where the value of $-t$ count $<$ from $-t$ table is $-3,437 < -2,039$, or the probability value is 0.0021 which is less than 0.05, which the previous hypothesis was rejected or not in accordance with the results obtained in the test.

4. Effect of CR, ROA, and DER on company value

The research hypothesis is that there is a positive influence Current ratio, Return On Assets and Debt to Equity on firm value (H4). After conducting the simultaneous test or F test, the calculated F value is 9.018911 while the F table with an alpha level of 0.05 is 2.91. Thus F count $>$ F table, and the probability value is less than 0.05 to 0.00. So that the previous hypothesis is accepted, there is a positive and significant effect of Liquidity, Profitability and Leverage on firm value.

6 Conclusion

1. Liquidity (CR) has a negative and significant effect on the value of pharmaceutical sub-sector companies listed on the Indonesia Stock Exchange (IDX) in 2017–2021.
2. Profitability (ROA) has a positive and significant effect on the value of pharmaceutical sub-sector companies listed on the Indonesia Stock Exchange (IDX) in 2017–2021.
3. Leverage (DER) has a negative and significant effect on the value of pharmaceutical sub-sector companies listed on the Indonesia Stock Exchange (IDX) in 2017–2021.
4. Liquidity (CR), profitability (ROA), and leverage (DER) together have a positive and significant effect on firm value.

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