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ABSTRACT

The purpose of this study was to determine the effect of profitability mediating company size and capital structure on company value in Industrial Companies Processing Raw Materials and Services in the Indonesia Stock Exchange. The population in this study was 60 companies, and the number of samples of these research companies was 36 companies selected using a *purposive sampling* method with criteria, namely companies that provide complete financial reports for 2018-2022 and conduct *initial public offerings* before 2018-2022. The data analysis technique used SPSS version 25: descriptive statistics, classical assumption test, multiple regression analysis, correlation coefficient and determination, hypothesis testing, Sobel test, and path analysis. The results showed that company size and capital structure positively affect profitability, and company size and capital structure positively affect company value; profitability mediates company size and capital structure and has a positive effect on company value.

Keywords: Company Size, Capital Structure, Profitability, and Company Value.

INTRODUCTION

Companies in the raw material processing and services sector increased at the beginning of the second semester of 2023. Following the Indonesia Stock Exchange movement, the raw material processing and services industry has returned to extreme positive growth with an increase of 2,88% when calculated from the beginning of the year, namely, *year-to-date* (YTD). In fact, until the June 2023 market close, the JCI was still negative at 1,04%. The pace of the raw materials and services processing industry stock index did not stop, as the composite stock price index (JCI) weakened by 0,69% last week. Three stock indices gained points last week, including the Indonesia Stock Exchange, the raw material processing industry, and the service industry, which strengthened 0,84%.

With a significant proportion of the share price, Astra Group stocks lead in this area, especially PT United Tractors, Tbk (UNTR) and PT Astra International Tbk (ASII). The stock that experienced the biggest price increase was PT Sumi Indo Kabel, Tbk (IKBI), which rose 204,76% from the beginning of the year until now. The raw materials and services processing industry is home to issuers from various operating segments. From construction equipment, electricity, heavy machinery and equipment, and commercial services to multi-industry holding companies.

The business confidence index remains high, even in tightening interest rate policy. This situation is also reflected in the Purchasing Manager Index (PMI) of the raw goods and services processing industry sector, which is in the optimistic phase in June, reaching 52,5%. The Consumer Confidence Index (CCI) is also above the optimistic zone at 127,1%. This condition is an important catalyst that helps the stock of raw materials processing industry raw materials and services group, which tends to increase. Financial performance experienced a positive trend in Q2 2023 and is expected to continue until the end of the year, which could be a positive catalyst for the continuation of the upward trend.

The determining factor for issuers' performance in this sector also comes from the many infrastructure, construction, and mining activities that meet the demand for industrial products. On the other hand, there is the prospect of the Indonesian Capital City Project (IKN), which can be a source of income for industry players, including heavy equipment manufacturers and cable companies. The strengthening of securities by issuers of the raw materials and services processing industry is also inseparable from the impact of industrial turnover in the stock market.

As the commodity sector weakens, stocks in the raw materials and services processing industry are an option. In terms of business, strong domestic demand supports issuers' performance in the raw materials and services processing industry. This is a positive psychology for stock movements. A sustained *bullish trend* remains possible in not all raw material and services manufacturing sector stocks.

The performance of issuers supporting the ecosystem in infrastructure, construction, and mining demand is expected to improve at the end of this year. However, market players should be aware of the weakening risk as investors often *wait and see* during general and presidential elections. Issuers engaged in the printing and digital printing sector have good prospects. The shares of issuers in this sector have been growing positively since the beginning of the year, such as PT Astra Graphia, Tbk (ASGR), which at the beginning of 2021 had a share price of IDR 772,81 with a book value of IDR 1.207,00, then increased in 2022 to IDR 915,00 with a book value of IDR 1.255,00. PT Berkah Prima Perkasa, Tbk (BLUE) has a share price value of IDR 260.95 with a book value of IDR 192,77 and in 2022, it increased by IDR 267,04 with a book value of IDR 210.20. These two issuers show that this company has good performance prospects and can maintain its business continuity.

Investors need to pay close attention to the prospects of each business segment of the raw materials processing and services industry. Coinciding with the financial reporting time, reviewing the company's financial performance results and its fundamental position is important. Technical analysis can also support the upward trend of stock prices. Investors recommend buying stocks in 2023, such as PT Astra International and Tbk, as an investment option. (ASII) with a target price of IDR 7.175/share, PT United Tractors, Tbk. (UNTR) with a target price of IDR 28.500/share, and PT Impack Pratama Industri, Tbk. (IMPC) with a target price of IDR 368/share.

Astra Group stocks are also an option for investors, with recommendations to *buy for* PT United Tractors, Tbk (UNTR) and *hold for* PT Astra International, Tbk (ASII). Meanwhile, another investor suggestion is to collect ASII with a buy-on-dip strategy. Meanwhile, some investors who want to accumulate stocks such as PT United Tractors, Tbk (UNTR), PT Surya Pertiwi, Tbk (SPTO) and PT KMI Wire & Cable, Tbk (KBLI). Many stocks in the raw material processing and services industry sector are worth collecting, namely shares of PT United Tractors, Tbk (UNTR), PT Sumi Indo Kabel, Tbk (IKBI), PT Astra Graphia, Tbk (ASGR), PT Hexindo Adiperkasa Tbk (HEXA) and PT Mitra Pack, Tbk (PTMP).

In this era of globalization, there is a lot of competition for companies *going public*, especially for companies in the raw materials and services processing industry sector. This raw materials and services processing industry company has very good revenue and shares in 2022, such as PT Astra International, Tbk. (ASII) with revenue of IDR 301.370.000.000.000,00 and price of IDR 5.181/share, PT United Tractors, Tbk. (UNTR) with revenue of IDR 123.607.460.000.000.000 and a price of IDR 20.885/share, and PT Impack Pratama Industri,

Tbk. (IMPC) With revenue of IDR 2.808.698.656.787 and price of IDR 290/share, it becomes an investment priority because of its excellent opportunities.

The existence of opportunities in the field makes every company constantly improve its performance to achieve maximum company goals. This company plays an important role in international trade, such as PT Astra Graphia, Tbk. (ASGR) has a share price of IDR 928/share and a book value of IDR 1.255/share, PT Global Mediacom, Tbk. (BMTR) has a share price of IDR 278/share, a book value of IDR 1.607/share, and PT Kabelindo Murni, Tbk. (KBLM) has a share price of IDR 236/share and a book value of IDR 1.111/share. This is inseparable from the increase in quality and production these companies produce to compete in the world market, especially in the industrial sector of processing raw materials and services.

The rapid development of the raw materials and services processing industry has created intense competition, so companies must compete to achieve their goals. The company's goal is to maximize shareholder wealth and increase company value. According to [15], Company value makes investors and creditors more selective in investing in a company. Investors often invest in their companies using fundamental analysis. Investors use the fundamentals in analyzing company ratio stocks: *debt-to-equity ratio*, *return on assets*, *price book value*, and cash flow. According to [2], this can be seen from the achievement of a company in resource management, which can be seen from profitability, which can be used as a reference by investors in making investment decisions. Profits show good prospects for the company, so this signal gets a positive response from investors and is expected to increase the company's value.

According to [20], The importance of company value can be seen from several angles, for example, when viewed from the stock market price, because the company's stock price is an assessment given by investors as a whole to the capital of each company. Fluctuations in stock prices in the capital market are an interesting conversation. The increase in a company's share price indicates shareholders' wealth. The company's goal through implementing a good management function is company optimization, where every financial decision can affect company value.

A high share price also increases the value of the company. The high value of a company makes the market not only believe in the company's current performance but also its prospects. According to [9], when the company's value improves, it can maximize its value and benefit its shareholders. The welfare provided to shareholders can be reflected in the company's value so that when the company's value experiences a good increase, the welfare of shareholders also increases.

According to [10], Management can be responsible for managing the company by considering investment decisions, funding decisions and dividend policies to increase company value. Company value can increase if management, stakeholders, and other people with a financial interest make financial decisions that maximize working capital.

Company value is the value investors can pay to own the company. For an investor, company value describes the value of ownership of a company's shares and is influenced by fluctuations in stock prices due to supply and demand in the stock market. According to [12], If the company has good future expectations in the eyes of investors, it will have an impact on strengthening the share price in the capital market; on the other hand, if the company does not make a positive contribution in the future, it will have an impact on weakening the share price in the capital market, the share price will weaken.

According to [13], *Signaling* theory explains that company managers always convey information or signals about conditions and hope that their company can reach investors in the

future so that investors will use this information when considering investments and making the right choices. Based on the information received by investors and positive signals, investors invest their assets in the form of share ownership so that the capital market responds favourably.

According to [11], Company size can influence company value. Company size includes the size of the company based on assets, total sales, average total sales, and average total assets. Large companies tend to disclose more information because they have many investors. Based on the size of the company, it can be seen how easy it is for a company to get funds from the capital market. This usefulness is useful information for investors to make investment decisions and affect the company's value in the future.

Capital structure is one factor that affects a company's value. According to [1], the optimal capital structure is the capital structure with the lowest cost of capital. The firm value increases if it has an optimal capital structure, namely. Balancing risk with the expected level of profit. An optimal capital structure will increase profitability and increase firm value. High debt increases the cost of capital, decreases profitability, and increases risk.

The third factor that affects company value, in addition to company size and capital structure, is profitability, which is used as a mediating variable, which uses return on assets. According to [15], many investors are interested in profitability ratios because the first two things are information about the efficient use of funds invested by investors. Secondly, these investors can evaluate the amount of return on their investment. Increased profits send a positive signal to investors that the company is profitable and is expected to provide wealth to shareholders through high stock *returns*.

This research is strengthened by the research of [20], [15], and [1], which states that leverage and company size have a positive effect on profitability. Leverage, company size, and profitability positively affect company value. Profitability can mediate leverage and company size on company value. Research conducted by [9] supports research [30] different from the research of [12], [20], [15], [1] stating that funding decisions do not affect profitability. Company size has a positive effect on profitability. Funding decisions, company size, and profitability positively affect company value; profitability cannot mediate funding decisions on company value, and profitability mediates company size on company value. Research conducted by [13] states that capital structure and company size do not affect profitability, capital structure has a positive effect on company value, company size does not affect company value, profitability has a positive effect on company value, profitability cannot mediate capital structure and company size on company value.

The following is presented in Table 1, which is the average data for the calculation of company size, capital structure, profitability, and company value in industrial companies processing raw goods and services on the Indonesia Stock Exchange:

Table 1. Average Calculation of Company Size, Capital Structure, Profitability, and Company Value in Industrial Companies Processing Raw Materials and Services on the Indonesia Stock Exchange

Year	Company Size	Capital Structure	Profitability	Company Value
2018	28,3421	1,6861	0,0081	0,8983
2019	28,3574	0,4842	0,0301	0,4716
2020	28,2977	0,9816	-0,0282	0,6241
2021	28,5228	1,0042	0,0549	1,0431
2022	28,6276	1,1177	0,0514	1,2215

Source: Processed Data, 2023

Table 1.1 shows that the average value of company size as measured by the natural logarithm of assets in 2018 shows a value of 28,3421 obtained from the company balance of IDR 2.036.131.533.625,00. In 2019, the company's total assets increased to 28,3574, obtained from the company balance of IDR 2.067.500.211.522,00. In 2020, the company's balance decreased to 28,2977, obtained from the balance of all company assets mounting to IDR 1.947.803.546.615,00. In 2021, the total balance increased to 28,5228, obtained from the balance of all assets amounting to IDR 2.439.430.357.029,00. In 2022, the company's total assets increased to 28,6276, obtained from the asset balance of IDR 2.708.966.813.511,00.

The average capital structure in 2018, as measured by the *debt-to-equity ratio*, is 1,6861, followed by the total debt of all companies amounting to IDR 336.965.735.005.534,00 greater than the total equity of all companies of IDR 309.845.987.260,00. In 2019, the *debt-to-equity ratio* decreased by 0,4842, so that the total debt of all companies amounted to IDR 316.341.246.262.725,00 less than the total equity of all companies of IDR 333.212.393.500,00. In 2020, the *debt-to-equity ratio* increased by 0,9816 so that the total debt of all companies amounted to IDR 278.462.439.893.782,00 less than the total equity of all companies, which amounted to IDR 344.685.624.500,00. In 2021, the *debt-to-equity ratio* increased by 1,0042 so that the total debt of all companies amounted to IDR 290.384.241.923.544,00; which was smaller than the total equity of all companies of IDR 391.645.454.409,00. In 2022, the *debt-to-equity ratio* increased by 1,1177, so the total debt amounted to IDR 336.051.708.322.834,00 less than the total equity of the entire company of IDR 449.044.836.404,00.

The average profitability in 2018, as measured by *return on assets* was 0,0081, followed by profit after tax of IDR 41.283.665.182.737,00 and total assets of IDR 646.808.722.972.166,00. In 2019, the average return on assets was 0,0301, followed by profit after tax of IDR 43.531.753.919.196,00 and total assets of IDR 649.553.640.063.970,00. In 2020, the average return on assets decreased by -0,0282; after that, the value of net profit after tax decreased by IDR 24.200.033.728.921,00, and the total asset value decreased by IDR 623.148.063.943.957,00. In 2021, the average return on assets increased by 0,0549, followed by net profit after tax increasing to IDR 46.425.159.704.456,00 and total assets increasing to IDR 682.029.696.632.838,00. In 2022, the average return on assets decreased by 0,0514, after which the net profit after tax decreased to IDR 36.052.165.507.701,00; and the total asset value decreased to IDR 743.812.879.464.737,00.

The average company value at *price book to value* 2018 was 0,8983; followed by a share price of IDR 52.554,00. In 2019, the average *price book-to-value* decreased to 0,4716, after which the share price decreased by IDR 48.744,00. In 2020, the average *price-to-book value* increased by 0,6241, followed by an increase in the share price of IDR 52.267,00. In 2021

and 2022, the average price *book-to-value* increased by 1,0431 and 1,2215, after which the share price will increase from IDR 56.677,00 to IDR 64.927,00.

Based on the description of this study, the researchers are interested in conducting a research title on determinants of company value and profitability as a mediator. The research objectives are to test and analyze the effect of company size and capital structure on profitability in industrial companies processing raw materials and services on the Indonesia Stock Exchange, to test and analyze the effect of company size, capital structure, and profitability on company value in industrial companies processing raw materials and services on the Indonesia Stock Exchange, to test and analyze the effect of company size and capital structure with profitability as a mediator on company value in industrial companies processing raw materials and services on the Indonesia Stock Exchange.

Signalling Theory

According to [6: 166], this theory was first discovered by Spence (1973), stating that management provides signals about the company through the disclosure of different financial information, which can be seen as a signal to investors. Signal theory is generally defined as a signal given by the company (manager) to outsiders (investors). These signals can take many forms, both those that can be observed directly and those that require further observation to be discovered. Regardless of the form or type of signal, they all aim to suggest something in the hope that the market or outsiders will change the company's value. This means that the signal chosen must contain informative content so that it can change the assessment of outsiders. This signal is chosen by company managers who can overcome *financial distress* and dare to take risks. Thus, investors have a better appreciation and can quickly distinguish which companies are good and which are not from the company's capital structure.

According to [9] and [12], *signalling* theory is one of the theories in corporate finance that examines how companies can use financial information and their financial decisions to send signals to investors, creditors, and other stakeholders about the company's condition and prospects. Large companies are often perceived as having more resources and stability than small companies. Therefore, when a large company decides to take certain actions, such as increased investment or dividend distribution, this may be perceived as a positive signal that the company believes in their ability to generate strong future cash flows. A company's decision on its capital structure, i.e. how much debt and equity to use, can be an important signal. Companies that take on large amounts of debt may believe they have favourable investment opportunities. On the other hand, if a company decides to reduce its debt, this could be considered a positive signal that it wants to reduce financial risk.

A company's level of profitability can be a signal about the company's performance and management capabilities. A company with a high level of profitability may be considered a healthy and efficient company. In contrast, a company with low profitability may require a change in strategy or corrective action. The value of a company reflected in its stock price or bond price can be a signal to investors. If a company's share price continues to increase, this is a positive signal that investors believe in the company's growth and prospects. In all these cases, companies can use their financial decisions to signal the market about their condition and prospects.

Company Size

According to [14], Company size reflects the total assets owned by the company. The bigger a company is, the greater its assets and the more funds it needs to continue its operations. The larger the size of a company affects management decisions regarding what financing the company uses so that funding decisions can optimize company value.

According to [3], Company size can be measured by the natural logarithm of the company's total assets. The reason is that each company's size is different, even if the difference is large enough that the value can exceed the limit. The greater the total assets, the larger the company, the greater the capital invested. The better the company's income development, the more convincing investors see the company's financial results; of course, the satisfaction of the parties related to the company is automatically guaranteed. The formula is presented as follows:

$$\text{Company Size} = \ln \text{Total Assets}$$

Capital Structure

According to [5: 106], The capital structure describes the form of the company's financial shares, namely between share capital obtained from *long-term debt (long-term liabilities)* and share capital (equity), which is the source of the company's financing. A company's capital structure consists of long-term debt and equity, where equity consists of preferred stock and common stock, as well as common stock itself and retained earnings. Financing needs to strengthen the company's capital structure can come from internal and external sources, as long as the required financial resources are obtained from a safe place (*security station*) and their use has added value in strengthening the company's financial capital structure. This means that if the funds are used to strengthen the company's capital structure, the company can manage the capital efficiently, effectively, and according to its objectives.

The debt measures the capital structure *to equity ratio*. According to [8: 227], The debt-to-equity ratio is used to measure the debt-to-equity ratio. This ratio is calculated as total debt divided by equity. This ratio is useful for comparing the financial resources of creditors and business owners. In other words, this ratio determines how much each rupiah of capital is used as debt collateral. This ratio provides a general guide to the creditworthiness and financial risk of the debtor. According to [10], this capital structure ratio uses the *debt-to-equity ratio*. The *debt-to-equity ratio* is a ratio that shows what percentage of assets shareholders give to lenders. The higher the ratio, the less shareholders finance the company. The capital structure formula is presented as follows:

$$\text{Debt to Equity Ratio} = \frac{\text{Total Debt}}{\text{Total Capital}}$$

Profitability

According to [4: 103], Company profitability is one of the bases for evaluating the status of a company. To do this, an analytical tool is needed to evaluate. The analysis tool in question is financial ratios. Profitability is also important to maintain the survival of a business in the long term because profitability shows whether a business has good prospects in the future. And measure management performance from the return on sales and investment. Thus, every business entity will always try to increase its profitability because the higher the profitability of the business entity, the more guaranteed its survival.

Profitability uses *return on Assets*. *Return on Assets* is a ratio that shows how much an asset contributes to net income. In other words, this ratio measures how much net profit is earned per rupiah of total assets. This ratio is calculated by dividing net income by balance sheet volume. The higher the rate of return on assets, the higher the net profit per rupiah of total assets.

Conversely, the lower the rate of return on assets, the lower the net profit earned per rupiah of total assets. According to [20], the ratio used in this study is *Return on Assets* (ROA), which aims to determine how much return on investment issued by the company using all the assets owned by the company. Investors can evaluate returns or investments based on utilising company assets or other resources. The profitability formula used is as follows:

$$\text{Return On Assets} = \frac{\text{Net Profit After Tax}}{\text{Total Assets}}$$

Company Value

According to [17: 15], Company value is the price potential buyers are willing to pay if the business is sold. Because prices in the market are formed in reality, it can be a meeting of the points of stability of the power of demand and the points of stability of the power of price supply; in fact, the buying and selling of securities occurs between sellers/issuers in the capital market and investors, or often called market *equilibrium*. Therefore, in the theory of capital market financing, the price of shares in the market is called the concept of company value. The purpose of enterprise value analysis is to identify weaknesses in the financial situation that may cause problems in the future and to identify strengths that can be utilized. Outsiders use this analysis to determine the reliability or potential of an investment.

According to [12], the company value in this study uses *price book value*. Company value is the money asset owners spend to buy the company. If the stock price is high, it indicates that the company's value is also increasing, attracting investors to invest in the company. Conversely, when a company's share price falls in the capital market, this causes a decrease in company value, and investors reconsider their decision to invest in the company. The company value formula is:

$$\text{Price Book Value} = \frac{\text{Share Price}}{\text{Book Value}}$$

The relationship between company size and profitability

According to [15], larger company assets will increase profitability. Companies with large assets are considered more profitable because using company assets can support activities that aim to generate more profits. Companies with good resources and large operating activities indicate that they have great profit prospects. Large companies certainly have more assets than small companies. Maximum use of assets for production and business activities will also bring maximum profits. Increased profits bring positive signals to investors because these profits affect returns for investors.

This supports signal theory as it provides information to investors to facilitate their capital development. The company's size, in this case, including total assets, can be increased and maximized by the company to increase profitability. The results of this study it is supported by research by [12], [16], and [7], which states that company size has a positive and significant effect on profitability.

H₁: Company size has a positive effect on profitability.

The relationship between capital structure and profitability

According to [20], the higher the use of financial resources, the higher the efficiency of profit maximization. The company's goal is to use debt so that the profits generated exceed the cost of assets and funds, which is expected to increase business profits. The company's increasing profit will be a positive signal for investors because it is considered capable of financing itself by maintaining or increasing its profit level. Thus, the higher the level of capital structure, the higher the profit generated by the company. The results of this study are supported by research by [16], [10], and [12], which state that capital structure has a positive and significant effect on profitability.

H₂: Capital structure has a positive effect on profitability

The relationship between company size and company value

According to [15], the higher the company's assets, the higher the company value. Investors consider companies with large assets suitable as investment locations because these companies tend to survive in all economic conditions, and the possibility of bankruptcy is low. A large number of assets will reduce the value of the business when assessed from the business owner's point of view. However, having easy control over the business increases its value from the management's point of view.

Company size is understood as a positive signal that investors accept the company has good prospects, so large companies are more in demand by investors, resulting in increased stock prices and high company value. This research is in line with the research of [1], [3], and [14], which states that company size has a positive and significant effect on company value.

H₃: Company size has a positive effect on company value.

The relationship between capital structure and company value

According to [20], using debt is beneficial and does not exceed optimal limits, which can increase company value. Therefore, the company's management decision to borrow is a signal given by investors to assess the company's prospects. Companies with good prospects will choose funding as an alternative source of financing compared to external equity financing. The increase in company value, which is influenced by the level of debt utilization, will provide a positive effect or signal in the form of information to external parties. The higher the capital structure, the higher the firm value. *Signalling theory* relates to various information related to prospects in a business. One of the types of information that the company can publish is information about the amount of debt and the use of debt in the company. According to [1], companies can use this debt to get high profits and increase company value because of its high capital structure to protect the company from taxes. The results of this study are supported by research by [12], [15], and [3], which state that capital structure has a positive and significant effect on company value.

H₄: Capital structure has a positive effect on company value

The relationship between profitability and company value

According to [2] states that, high *earnings* encourage investors to buy shares because of the company's good prospects. *Signal theory* states that explains that profitability will be related to the company's prospects depending on how much profit is formed. Because increased income will become a standard in making investor investment decisions, the practical interpretation of the

results of this study is that companies should focus more on company profits so that they become positive signals for investors.

According to [12], profitability changes will affect company value because both the company's high and low profitability will affect the company's attractiveness and investors. Investors' investment interest is reflected in the company's share price traded in the capital market, so if the company's profit increases, the share price will also increase. The company's profitability decreases, the company's share price tends to decrease, and this will also reduce the company's value. The results of this study are supported by research by [9], [18], and [19], which states that profitability has a positive and significant effect on company value.

H₅: Profitability has a positive effect on company value.

The profitability relationship mediates company size and company value

According to [12], a larger *firm* is likely to push the company to higher profitability so that company size will affect company profitability. By what is shown by signal theory, company size can provide an overview and signal to investors that if a large company reflects that the company can grow and develop, investors will respond to positive signals because investors see the company as having strength and competitiveness. Large companies have sufficient asset capacity to increase profitability, positively increasing company value.

According to [9], company size can determine company value through its profits. Companies can expand the market, develop their business successfully and have good prospects. So that there is a positive signal for investors to feel interested in investing their money in the company. High corporate profits indicate that the company's value is also high because of its attractive business prospects and always pushes the stock price higher. The results of this study are supported by [14], [11], and [20], which state that profitability can mediate company size has a positive and significant effect on company value.

H₆: Profitability mediates the positive effect of company size on company value.

The relationship between profitability mediates capital structure and company value

According to [20], increasing debt can increase profitability, indirectly leading to higher company value. The results of this study support *the signalling theory* that the more debt is used to increase assets, the more positive signals are given to investors. Investors think they will make a big profit when the company's value is good. An optimal capital structure will increase profitability, which will increase stock prices and company value.

According to [12], a company's optimal level of debt-equity composition will increase the use of debt to finance company operations to use a certain amount of debt to generate maximum revenue and profit. An increase and a high level of profitability indicate that the business is quite good and will make business owners or investors prosperous. This raises investors' desire, interest and trust to invest in the company, and this condition increases the company's value. The results of the study are supported by research by [10], [1], and [15], which states that profitability can mediate capital structure has a positive and significant effect on company value.

H₇: Profitability mediates the positive effect of capital structure on company value.

RESEARCH METHOD

This form of research uses quantitative. The data used by researchers using secondary data obtained from the official website of the Indonesia Stock Exchange, namely www.idx.co.id. The population in this study were industrial companies processing raw materials and services listed on the Indonesia Stock Exchange, totalling 60 companies. At the same time, the sampling method used in the study used *purposive sampling*, totalling 36 companies with the criteria of companies that provide complete financial reports from 2018-2022 and companies that made *initial public offerings* before 2018-2022. The data analysis technique used SPSS version 25, namely descriptive statistics, classical assumption test, multiple regression analysis, correlation coefficient and determination, hypothesis testing, Sobel test, and path analysis. The following Table 2 presents the sample selection criteria:

Table 2. Sample selection criteria

No	Result	Description
1	Industry Companies Processing Raw Goods and Services listed on the Indonesia Stock Exchange	60
2	Companies that have not provided complete financial reports in the period 2018-2022	(4)
3	Companies that conduct IPOs above 2018-2022	(20)
4	Total company sample	36
5	Total research data for five years	180

Source: Processed Data, 2023

RESULTS AND DISCUSSION

Descriptive Analysis

Descriptive statistics analyze data by describing the data collected without drawing a general conclusion or generalization. Descriptive statistics provide insight into the data seen from the mean, standard deviation, maximum, and minimum. The following is presented in Table 3, which is the result of descriptive statistics:

Table 3. Descriptive Statistics

	Minimum	Maximum	Mean	Std. Deviation
Company Size	22.3766	33.6552	28.429508	1.9786514

Capital Structure	-17.6235	22.0246	1.054764	2.7629916
Profitability	-1.0225	.5143	.023248	.1404826
Company Value	-9.2676	8.0392	.851741	1.8891048

Source: SPSS Output Version 25, 2023

Table 3 shows that the company's size proxied by total assets shows a minimum of 22,3766 trillion, namely at PT Dosni Roha Indonesia, Tbk. (ZBRA) The maximum value of company size proxied by total assets is 33,6552 trillion, namely at PT Astra International, Tbk. (ASII) In 2022, the average value of total assets in industrial companies processing raw materials and services on the Indonesia Stock Exchange will be 28,4295. The standard deviation value of total assets in industrial companies processing raw materials and services is 1,9786.

The capital structure proxied by the *debt-to-equity ratio* has a minimum value of -17.6235 at PT Intraco Penta, Tbk. (INTA) in 2019. PT INTA Intraco Penta, Tbk has a maximum debt-to-equity ratio value of 22.0246. (INTA) in 2018. The average *debt-to-equity ratio* value in industrial companies processing raw materials and services on the Indonesia Stock Exchange is 1,0547. The standard deviation value of the *debt-to-equity ratio* in industrial companies processing materials and services is 2,7629.

Profitability proxied by *return on assets* has a minimum value of -1,0225, namely at PT Tanah Laut, Tbk. (INDX) in 2018. PT Modern Internasional, Tbk own the maximum value of return on assets of 0,5143. (MDRN) in 2021. The average value of *return on assets* in industrial companies processing raw materials and services on the Indonesia Stock Exchange is 0,0232. The standard deviation value of *return on assets* in industrial companies processing materials and services is 0,1404.

The company value proxied by *price to book value* has a minimum value of -9,2676, namely at PT Dosni Roha Indonesia, Tbk. (ZBRA) in 2020. PT Perdana Bangun Pusaka, Tbk, has a maximum price-to-book value of 8,0392. (KONI) in 2022. The average *price-to-book value* in industrial companies processing raw materials and services on the Indonesia Stock Exchange is 0,8517. The standard deviation of *price to book value* in industrial companies processing materials and services is 1,8891.

Classical Assumption Test, Multiple Regression, and Hypothesis Testing

After completing descriptive statistics, it will be continued with classical assumption testing in the first equation and equations consisting of normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test; multiple regression analysis, and hypothesis testing consisting of correlation and determination coefficients, Ftest (model feasibility test), and t-test (partial test). Researchers will present a recapitulation of the statistical test results. The following is presented in Table 4, which is a recapitulation of the statistical test results:

Table 4. Recapitulation of Statistical Testing Results

Equation I (X to Z)	Multiple Regression	Test t (Partial Test)
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Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.223	.050		-4.469	.000
	Lag_Company Size	.016	.003	.381	4.714	.000
	Lag_Capital Structure	.016	.006	.219	2.707	.008
a. Dependent Variable: Lag_Profitability						
Normality Test <i>One Sample Kolmogorov Smirnov</i> = 0.200						
Autocorrelation Test (<i>Durbin Watson</i>) = 1.911						
F Test (Simultaneous) = F_{count} of 17.967 with Sign. 0.000						
Correlation Coefficient (R) = 0.475						
Coefficient of Determination (Adjusted R Square) = 0.214						

Equation II (X and Z to Y)		Multiple Regression			Test t (Partial Test)	
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-4.081	.775		-5.266	.000
	Lag_Company Size	.322	.064	.324	4.996	.000
	Lag_Capital Structure	.653	.089	.463	7.337	.000
	Lag_Profitability	6.577	1.083	.368	6.073	.000
a. Dependent Variable: Lag_Company Value						
Normality Test <i>One Sample Kolmogorov Smirnov</i> = 0.200						
Autocorrelation Test (<i>Durbin Watson</i>) = 1.909						
F Test (Simultaneous) = F_{count} of 59.632 with Sign. 0,000						
Correlation Coefficient (R) = 0.771						
Coefficient of Determination (Adjusted R Square) = 0.585						

Source: SPSS Output Version 25, 2023

Table 4 shows that the results of classical assumption testing in both the first and second equations met the assumption criteria, so the next test results, namely the, multiple regression, Sobel test and path analysis, will continue.



Multiple Regression

Multiple regression is an extension of simple linear regression, a tool to predict future demand based on the past and determine the effect of one or more independent variables on one dependent variable. Multiple regression uses a beta (β) coefficient, but one or more independent variables affect the dependent variable. The multiple regression equation is as follows:

1) Equation Structure I:

$$Z = -0,223 + 0,016X_1 + 0,016X_2 + \hat{e}$$

2) Equation Structure II:

$$Y = -4,081 + 0,322X_1 + 0,653X_2 + 6,577Z + \hat{e}$$

Description:

a = Constant

Y = Company Value

X_1 = Company Size

X_2 = Capital Structure

Z = Profitability

$\hat{e}$ = Standard Error

Sobel Test

1. The Effect of Profitability Mediating Company Size on Company Value

Company size coefficient (First equation)

= 0,016

Profitability coefficient (Second equation)

= 6,577

Standard error of company size (First equation)

= 0.003

Standard error of profitability (Second equation)

= 1,083

$$= \frac{0,016 * 6,577}{\sqrt{((0,016)^2 * (1,083)^2) + ((6,577)^2 * (0,003)^2) + ((0,003)^2 * (1,083)^2)}}$$

$$= \frac{0,105}{0,018}$$

$$= 5,936$$

Based on the results of the above calculations, it shows that the indirect effect beta coefficient has a value of 0.105 with a *standard error value* of the indirect effect of 0.018, the t_{count} value of $5.936 > t_{\text{table}}$ of 1.979, it can be concluded that profitability can mediate company size has a positive and significant effect on firm value, which means that the sixth hypothesis in this study is accepted.

2. The Effect of Profitability Mediating Capital Structure on Company Value

Capital structure coefficient (First equation)



$$= 0,016$$

Profitability coefficient (Second equation)

$$= 6,577$$

Standard error of capital structure (First equation)

$$= 0,006$$

Standard error of profitability (Second equation)

$$= 1,083$$

$$= \frac{0,016 * 6,577}{\sqrt{((0,016)^2 * (1,083)^2) + ((6,577)^2 * (0,006)^2) + ((0,006)^2 * (1,083)^2)}}$$

$$= \frac{0,105}{0,019}$$

$$= 5,560$$

The results of the above calculations show that the indirect effect beta coefficient has a value of 0,105 with a *standard error value* of the indirect effect of 0.019. The t_{count} value of 5,560 is greater than the t_{table} of 1,979; it can be concluded that profitability can mediate capital structure and has a positive and significant effect on firm value, which means that the seventh hypothesis in this study is accepted.

Path Analysis

Path analysis has direct and indirect effects. A direct relationship occurs if a variable affects another variable without a third variable intervening in the relationship between the two variables. An indirect relationship occurs if a third variable mediates the relationship between the two variables. The path coefficient is the standardized regression coefficient. The path coefficient is calculated by creating two structural equations, which are regression equations that represent the hypothesized relationship.

Suppose the regression path coefficient value has been found in the first equation of the independent variable on the intervening variable. In that case, it will produce an *e1 value (standard error of the first equation)*. Suppose the regression path coefficient value has been found in the second equation showing the independent variable to the intervening variable on the dependent variable. In that case, it will produce an *e2 value (standard error of the second equation)*. The following is presented in Table 5, which is the direct and indirect effects:

Table 5. Direct and Indirect Effect Results

Variables	Direct Effect (X to Y)	Indirect Effect (X to Z to Y)	Total Influence	Conclusion
Company Size	0,324	$(0,381 \times 0,368) = 0,140$	0,464	Moderately strong or moderate

Capital Structure	0,463	(0,219x0,368) = 0,081	0,544	Moderately strong or moderate
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Source: SPSS Output Version 25, 2023

Table 5 shows that the calculation results of direct and indirect effects have a fairly strong correlation value for indirect effects. The following is the calculation of the *standard error of the first equation* and the *second equation*:

1. The first equation on the variable firm size and capital structure on profitability

$$R^2 = 0,214$$

$$e = \sqrt{1 - R^2}$$

$$e = \sqrt{1 - 0,214}$$

$$e = \sqrt{0,786}$$

$$e = 0,887$$

2. The second equation on the variables of company size, capital structure, and profitability on firm value

$$R^2 = 0,585$$

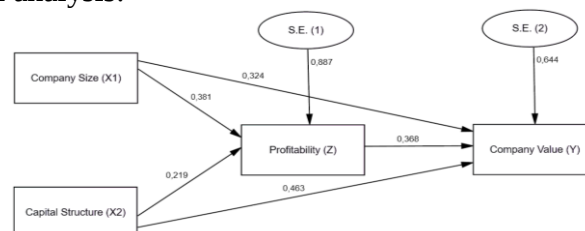
$$e = \sqrt{1 - R^2}$$

$$e = \sqrt{1 - 0,585}$$

$$e = \sqrt{0,415}$$

$$e = 0,644$$

After calculating the standard error of both the first and second equations. Then Figure 1 is presented which is a path analysis:



Source: Processed Data, 2023

Figure 1. Path analysis

Hypotesis Testing And Discussion

After the researchers have conducted descriptive statistical results and classical assumption testing, they will continue to discuss the study results. The discussion of the results of this study is

based on the regression coefficient value, significance value, tcount, and *standard error*. The following Table 6 is presented, which is a recapitulation of the discussion of the research results:

Table 6. Recapitulation of Discussion of Research Results

Hypothesis	Coefficient	tcount	Sig.	Results
H ₁ : Company size has a positive and significant effect on profitability	0,016	4,714	0,000	Accepted
H ₂ : Capital structure has a positive and significant effect on profitability	0,016	2,707	0,008	Accepted
H ₃ : Company size has a positive and significant effect on company value	0,322	4,996	0,000	Accepted
H ₄ : Capital structure has a positive and significant effect on company value	0,653	7,337	0,000	Accepted
H ₅ : Profitability has a positive and significant effect on company value	6,577	6,073	0,000	Accepted
H ₆ : Profitability	0,140	5,936	0,005	Accepted



mediates company size has a positive and significant effect on company value				
H ₇ : Profitability mediates capital structure has a positive and significant effect on company value	0,081	5,560	0,005	Accepted

Source: Processed Data, 2023

The effect of company size on profitability. The results of this test indicate that company size has a regression coefficient value of 0,016 with a significance value of 0,000, so testing the first hypothesis in this study, which states that company size has a positive effect on profitability, is accepted. This research is supported by research by [12], [16], and [7]. Larger company assets will increase the company's profitability. Companies with large assets are considered more profitable because using company assets can support activities that aim to generate more profits. According to Purwani & Santoso (2022), Companies with good resources with large operating activities show that the company has great profit prospects.

Large companies certainly have more assets than small companies. Maximizing the use of assets for production and operation activities will also bring maximum profit. Increased profits provide a positive signal to investors because these profits affect investor *returns*. This supports signal theory because it provides information to investors to advance their capital. In this case, company size (including total assets) can be increased and maximized to increase profitability.

The effect of capital structure on profitability. The results of this test indicate that the capital structure has a regression coefficient value of 0,016 with a significance value of 0,008, so testing the second hypothesis in this study, which states that capital structure has a positive effect on profitability, is accepted. This research is supported by research by [16], [10], and [12]. The capital structure of a company must be optimized to generate maximum profit. According to [15], too little debt is seen as a waste of production opportunities to meet market demand, but too much debt creates a high cost of capital. The higher the use of financial resources, the higher the efficiency of profit maximization.

The company's goal is to use short-term debt in such a way that the interest expense is low so that the profits generated exceed the cost of assets and funds, and with this, it is expected to increase business profits. According to [20], The company's increasing profit will be a positive

signal for investors because it is considered capable of financing itself by maintaining or increasing its profit level. Thus, the higher the level of capital structure, the higher the profit generated by the company.

The effect of company size on company value. The results of this test indicate that company size has a regression coefficient value of 0,322 with a significance value of 0,000, so testing the third hypothesis in this study, which states that company size has a positive effect on company value, is accepted. This research is supported by research by [1], [3], and [14]. Company size is understood as a positive signal that investors accept the company has good prospects, so large companies are more in demand by investors, resulting in increased stock prices and high company value. The higher the company's assets, the higher the company's value.

Research by (15), Investors consider companies with large assets suitable as investment locations because these companies tend to survive under all economic conditions, and the possibility of bankruptcy is low. A large number of assets will reduce the value of the business when assessed from the business owner's point of view. However, having easy control over the business increases its value from the management point of view.

The effect of capital structure on company value. The results of this test indicate that the capital structure has a regression coefficient value of 0,653 with a significance value of 0,000, so the fourth hypothesis testing in this study is accepted, which states that capital structure has a positive effect on company value. This research is supported by the research of [12], [15], and [3]. Companies with good prospects will choose funding as an alternative source of financing compared to external equity financing. The increase in firm value, which is influenced by the level of debt utilization, will provide a positive effect or signal in the form of information to external parties. The higher the capital structure, the higher the company value. According to [1], *Signaling theory* is related to various information related to prospects in a business. One of the types of information that the company can publish is information about the amount of debt and the use of debt in the company. Companies can use this debt to get high profits and increase the company's value because of its high capital structure to protect the company from taxes.

When the capital structure increases, the company's value increases so that it is seen to reduce the *weighted average cost of capital*. *Weight Average Cost of Capital* is the cost of capital the company must incur to obtain from various sources, either debt, equity, or a combination of both. One way to reduce the *weighted average Cost of Capital* is to use debt. Debt has a lower cost than equity, so greater use of debt can reduce the *weighted average Cost of Capital*. This increases the company's value because the company's stock price increases. So that investors think the company can pay back its debt with a lower cost of capital.

The effect of profitability on company value. This study examines the effect of the profitability hypothesis on firm value in industrial companies processing raw materials and services on the Indonesia Stock Exchange. The results of this test indicate that profitability has a regression coefficient value of 6,577 with a significance value of 0,000, so testing the fifth hypothesis in this study, which states that profitability has a positive effect on company value, is accepted. This research is supported by the research of [9], [18], and [19]. High *earnings* encourage investors to buy shares because of the company's good prospects. According to [2], *signal theory* explains that profitability will be related to the company's prospects depending on how much profit is formed. Because increased income will become a standard in making investor investment decisions, the practical interpretation of the results of this

study is that companies should focus more on company profits so that they become positive signals for investors.

Changes in profitability will affect changes in firm value because both the company's high and low profitability will affect the company's attractiveness and investors. According to [12] investor investment interest is reflected in the company's share price traded in the capital market. If the company's profit increases, the share price will also increase. The company's profitability decreases, the company's share price tends to decrease, and this will also reduce the company's value.

The effect of profitability mediates firm size on company value. The results of this test indicate that profitability mediates company size and has an indirect effect coefficient value of 0,140 with a significance value of 0,005 and a *standard error beta* indirect effect of 0,018. The results of the calculation of the *standard error of the first equation* show that company size and capital structure on profitability have a *standard error value of 0,887*, and the *standard error of the second equation* shows that company size, capital structure, and profitability on company value have a value of 0,644, resulting in a mediation correlation coefficient value of 0.464 so that the sixth hypothesis testing in this study is accepted which states that profitability can mediate company size has a positive effect on company value, it can be said that this correlation coefficient is in the range of 0,400 – 0,599 so that the coefficient is quite strong or moderate.

This research is supported by research [14], [11], and [20]. A larger *company size* is likely to push the company to higher profitability so that company size will affect company profitability. According to [12], what is shown by the signal theory that company size can provide an overview and signal to investors that if a large company reflects, the company can grow and develop so that investors will respond to positive signals because investors see the company has strength and competitiveness. Large companies have sufficient asset capacity to increase profitability, positively contributing to increasing company value.

The effect of profitability mediates capital structure on company value. The results of this test show that profitability mediates the capital structure and has an indirect effect coefficient value of 0,081 with a significance value of 0,005 and a *standard error beta* indirect effect of 0,019. The results of the calculation of the *standard error of the first equation* show that company size and capital structure on profitability have a *standard error value of 0,887*, and the *standard error of the second equation* shows that company size, capital structure, and profitability on company value have a value of 0.644, resulting in a mediation correlation coefficient value of 0,544 so that the seventh hypothesis testing in this study is accepted which states that profitability can mediate capital structure has a positive effect on company value, it can be said that this correlation coefficient is in the range of 0,400 – 0,599 so that the coefficient is quite strong or moderate.

This research is supported by research by [10], [1], and [15]. Increased debt can increase profitability, indirectly leading to higher company value. The results of research [20] support *the signalling theory* that the more debt is used to increase assets, the more positive signals investors receive. Investors think they will make a big profit when the company's value is good. An optimal capital structure will increase profitability, which will increase stock prices and company value. Because investors think the company can pay back its debt with a lower capital cost.

Debt is a risky source of financing because the company must pay interest and principal. If the company cannot pay interest and debt principal, the company can go bankrupt; high profitability reduces company risk because the company has more resources to pay interest and debt principal. This makes the company more attractive to investors, so investors are willing to

pay a higher price for the company's shares. Debt can finance investments that increase the company's growth opportunities. For example, a company can use debt to build a new factory, develop new products, or expand markets. High profitability increases the company's ability to pay interest and debt capital, so the company has more resources to invest. This increases the firm's growth opportunities and, hence, the company's value.

CONCLUSION

Based on the results of this study, it can be concluded that the partial test results of the first equation show that company size and capital structure have a positive effect on profitability, and the second equation shows that company size, capital structure, and profitability have a positive effect on company value. The Sobel test results show that profitability can mediate company size and capital structure on company value.

Limitations. This study has limitations where there is a possibility of error in processing research data. This research variable only consists of three independent variables, namely company size, capital structure and profitability and one firm value variable as the dependent variable, which is mediated by one intervening variable, namely profitability, population, and sample withdrawal only includes industrial companies processing raw materials and services that list themselves on the Indonesia Stock Exchange. The number of years of research is relatively short, only five, namely, 2018 to 2022.

Recommendation. (1) Future research can examine variables that are not yet in this study because, in this study, the independent variable has a small coefficient of determination or can only explain a small part of the factors that influence the dependent variable, and further research can also examine the latest time. (2) For investors, the results of this study can be the basis for making investment decisions. Before investing in companies and capital markets, investors should consider the company's growth rate and profits each year, as stated in the company's financial statements, so that investors can get the expected *return* and invest in the right company. (3) For companies, the results of this study should consider profitability and evaluate their capital structure to achieve optimal company value. In addition, the company is also expected to increase productivity in managing its assets so that additional assets will increase operating results and minimize the cost of capital to reduce the risk of bankruptcy. A growing company is a positive signal from investors that the company has good prospects in the future.

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