The Effects 0f Capital Structure and Profitability on the Value of Registered Pharmaceutical Sector Manufacturing Companies Indonesian Stock Exchange

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Keywords:	Abstract
Capital Structure; The value of the company; Manufacturing companies	This research aims to investigate the influence of capital structure and profitability variables on the company value within the pharmaceutical sector, focusing on firms listed on the Indonesia Stock Exchange from 2016 to 2020. The study encompasses all Manufacturing Companies in the Pharmaceutical Sector listed on the IDX during this period, with a purposive sampling method selecting 11 companies. Utilizing a descriptive verification approach with a quantitative methodology, the research involved analyzing data through validity testing, multiple linear regression analysis, and hypothesis testing using the t-test. The findings revealed that the capital structure, represented by DAR, exhibited a substantial and meaningful impact on firm value. On the other hand, the study found that profitability, as proxied by ROA, did not exert any significant influence on firm value. These outcomes shed light on the intricate dynamics within the pharmaceutical sector, emphasizing the significance of capital structure in determining firm value while indicating that profitability, as measured by ROA, may not be a sole determinant of firm value in this context. Further research could delve into exploring additional variables and their potential impact on company value within this sector.

1. INTRODUCTION

The development of the Indonesian economy which has increased quite rapidly has triggered business competition in the business world. Intense competition has made many companies take steps to optimize the value of their company so that they can remain competitive in the business world. Firm value is a measure of the success of the implementation of financial functions and also describes the welfare of the company owner. Mahendra , et al. (2012) stated that company value can provide maximum shareholder prosperity when stock prices increase, the higher the stock price of a company, the higher the level of shareholder prosperity.

Capital structure is one of the factors that can affect company value and is the proportion of funding with company debt. This increase in company value is due to tax savings from interest paid and a reduction in agency costs. Thus debt is an element of the company's capital structure. The capital structure is the main key to improving company productivity and

performance. The trade-off theory reveals that the company's funding policy in determining the capital structure (a mix of debt and equity) is used to optimize the value of the company.

Profitability is the company's ability to generate profits at the level of sales, assets and company share capital (Hanafi, 2014). Company profitability is an important variable that companies consider when investing. A high level of profitability shows that the company has good performance and has prospects for the future. Investors take this as a positive signal and respond by buying the company's shares. The more investors who are interested in buying company shares have an impact on increasing the company's share price and the company's value will also increase.

Company size is the size of the assets owned by the company. If the assets owned by the company increase, it will attract investors to become more interested in investing in the company. So, the company's share price also increases and can influence the increase in company value. Large companies tend to have a

lot of organizational resources because large companies provide greater and better opportunities to improve company performance (Husnan , 2008)

Based on the description above, the aim of this study is to examine the effect of capital structure and profitability variables on the company value of the pharmaceutical sector listed on the Indonesia Stock Exchange during 2016-2020.

2. LITERATURE REVIEW
2.1 Capital Structure

Capital structure is related to the long-term expenditure of a company as measured by the comparison of long-term debt with its own capital (Sudana , 2015). Funding from own capital can be done by issuing shares, while funding from debt can be done by borrowing money from the bank. According to (Hermuningsih , 2013) when the debt level reaches an optimal level, the company value will also reach the optimal value. On the other hand, if the debt level exceeds the optimal level, it will have a negative effect on company value. Capital structure is permanent expenditure to reflect long-term debt and own capital. So it can be said that capital structure is used to compare long-term sources in the form of loans and own capital. Capital structure is permanent expenditure which is indicated by the balance between own capital and debt (Riyanto , 2010).

2.2 Profitability

Profitability is a company's ability to generate profits by using company-owned sources such as assets, capital, or company sales (Sudana , 2015). Companies that have high profitability tend to be in demand by investors. High profitability shows that the company has good prospects in the future. Profitability is the company's ability to earn profits in relation to total assets, sales, and own capital Sartono (2010). 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 company profits. The better the profitability ratio, the more it describes the company's ability to achieve high profits.

2.3 The value of the company

According to Husnan (2008), company value is the price paid by prospective buyers if the company is sold. Firm value is an investor's assessment of the company's success and company performance which is reflected through the stock price in the market. The company value formed through share price indicators in the market will indicate the existence of good investment opportunities.

The existence of these investment opportunities can give a positive signal to investors about the prosperity that investors will get and the future prospects of the company so that this can increase the value of the company. Firm value is an investor's view of the company's level of success in managing the company's resources. Increased company value is an achievement desired by company owners, the increased company value will increase investor interest in investing in the company. Increased stock prices will also increase the value of the company, and can increase market confidence about the company's prospects in the future.

3. METHOD

The research method used is descriptive quantitative which means that descriptive describes the nature or characteristics of a particular event , while quantitative means analyzing numerical data objectively . The data used in this research is secondary data obtained through financial reports for pharmaceutical companies 201 6 -202 0 listed on the Indonesian Stock Exchange. The variables used in this study are capital structure (X1) which is proxied by *Debt to Assets Ratio* (DAR) as the independent variable and Profitability which is proxied by *Return on Assets* (ROA) and firm value as the dependent variable. The population of this research is all pharmaceutical companies listed

on the Indonesia Stock Exchange (BEI), namely 10 companies. The sampling method used is *purposive sampling method* , with a total sample of 9 companies from 10 pharmaceutical companies listed on the Indonesia Stock Exchange. Determination of samples that meet the requirements is based on the following criteria:

1. Pharmaceutical companies listed on the IDX for the 2016-2020 period
2. Pharmaceutical companies that publish their financial reports in full and consecutively for the 2016-2020 period
3. Had positive profits during the 2016-2020 period

3.1 Data analysis techniques

The data analysis technique used is using multiple linear regression analysis method, multiple linear regression analysis is an analysis model consisting of more than one independent variables and own linear relationships with dependent variable (Sugiyono, 2019) . Multiple regression analysis is used to assess how much influence capital structure and profitability have on company value in pharmaceutical companies listed on the Indonesia Stock Exchange for the 2016-2020 period

3.2 Hypothesis testing

In testing the hypothesis in the research conducted, namely by using non-parametric statistical tests, namely tools to determine the effect of financial ratios and valuations on stock prices. (Ghozali, 2016; Sunyoto, 2011)

a. Partial Test (t test)

The statistical t-test shows how much the *independent variable* individually influences *the variance of the dependent* variable (Ghozali ,

2016). In this research, does the *independent variable* , namely Capital Structure, have an effect on Company Value, which is the dependent variable? Determination of the acceptance hypothesis with the t test can be done based on the t table. The calculated t value of the regression results is compared to the t value in the table.

1) The hypothesis is accepted if t count > t table and sig level <0.05, then the *independent variables* individually have a positive and significant effect on the *dependent variable* .
2) The hypothesis is rejected if t count < t table and sig level > 0.05, then the *independent variables* individually have no effect and are not significant on the *dependent variable.*

b. *Coefficient of Determination* (R ^{2})

The coefficient of determination is used to find out how big the relationship between Capital Structure is and company value. If the results are below 0.05, then the ability of the independent variable to explain the dependent variable is very limited. If the result is above 0.05, it means that the independent variable provides the information needed to predict variations in the dependent variable. The greater the value of R ^{2} , the better the ability of the independent variable to explain the dependent variable.

4   Results and Discussions
4.1 Result
a.   Normality test

The data normality test aims to detect data distribution in something variables Which will used in study. Data Whichgood and feasible to prove these research models is data that has a normal distribution. Normality test results can seen US following:

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Table 1
One- Sample Kolmogorov-Smirnov Test

		Unstandardized Residuals
N		45
Normal Parameters [a, b]	Means	,0000000
	Std . Deviation	9.31358198
Most Extreme	Absolute	,083
Differences	Positive	,054
	Negative	-,083
Test Statistics		,083
Asymp . Sig . (2-tailed)		,200c ,d

a. Test distribution isNormal .
b. Calculated from data.
c. Lilliefors Significance Correction .
d. This is a lower bound of the true significance .

Based on table 1 it is known that the value of Asiymp.Sig . (2-tailed) is worth 0.200 which is greater than 0.05. So it can be concluded that the data is normally distributed. Thus, the normality assumptions or requirements in the regression model have been met.

b. Multiple Linear Analysis

Table 2
Coefficients [a]

	Unstandardized Coefficients		Standardized Coefficients	t	Sig .
Model	B	Std . Error	Beta		
1 (Constant)	35,399	4,538		7,801	,000
DAR	-,591	, 147	-.552	-4,030	,000
ROA	-,189	, 116	-,223	-1,629	, 111

Adj. *R Square* = 0.247.   *R Square* = 0.281.   F Count = 8,255.   SigF = 0.001

Based on the results of the regression analysis presented in table 2, the following regression equation can be created:

$$Y = 35.399 - 0.591DAR - 0.189ROA$$

The test results in table 2 The coefficient of determination (R^2) is 0.281 which means that 28.1% of the company's value is influenced by capital structure (X1) and profitability (X2) while the remaining 71.9% is influenced by other factors not included in the analysis model.

c. Hypothesis Testing

The test results using the t test or partial test of the effect of capital structure (X1) on firm value as shown in table 2 show that the t value is -4.030 greater than t table $_{1.680}$ with a significance level of 0.000 lower than 0.05 so that stated that H_0 is rejected and H_1 is accepted. This means that Capital Structure (X1) has a significant effect on Firm Value.

$_{test}$ has at value of -1.629 which is smaller than the t_{table} which is 1.680 with a significance of 0.111 greater than 0.05 so that it is stated that H_0 is accepted and H_1 is rejected. This means that profitability has no effect on firm value.

4.2 Discussion

a. The Influence of Capital Structure on Company Value

The results of this test show that there is a significant influence of the capital structure variable proxied by DAR on firm value, which is indicated by a significant value of -4.030 <0.05. The results of this study are supported by research (Siregar , 2016) which shows that there is a significant positive effect *of leverage* (DAR) on firm value. These results indicate that the correct use of debt (DAR) will be able to increase profits so that it will have an impact on company value.

This research is in line with research conducted by (Sofiani et al., 2022) which proves that there is an influence of capital structure proxied by DAR on firm value. However, this research is not in line with research conducted by (Limbong, 2022) that the Capital Structure proxied by DAR has no effect on firm value.

b. Effect of Profitability on Firm Value

Calculated t value of $-1.629 < t_{table}$ 1.680 with a significance of 0.111 then H_0 is accepted and H_1 is rejected. This shows that profitability has no significant effect on firm value. Thus it is proven that the size of the proxied profitability of ROA does not affect the value of a company. The results of this study are in line with research conducted by (Febriani, 2017) that proxied profitability using Return on Assets (ROA) has no partially significant effect on firm value. However, on the contrary, it is not in line with research conducted by (Limbong, 2022) and (Triagustina et al., 2015) which says that predicted profitability *Return On Assets* (ROA) has a significant effect on firm value. According to (Limbong, 2022) the higher the value of the proximate profitability ratio *Return On Assets* (ROA) will be able to increase the value of the company.

Profitability ratio proxied by *Return On Assets* (ROA) is a ratio that shows a company's abilities to meet or pay obligations or current debt (long-term debt) with current assets without taking into accounts the value alone (*investment*). *Return on assets* (ROA) is a form of profitability ratios to measure the abilities of a company with all funds invested in assets used

for the company's operations in order to generate maximum profits.

5 CONCLUSION

Drawing from the outcomes of the comprehensive tests performed in this study, several significant conclusions have emerged. Firstly, it was established that the capital structure, as proxied by DAR (Debt to Asset Ratio), holds substantial sway over firm value. In other words, the way a company structures its capital, particularly in terms of its indebtedness relative to its total assets, can significantly impact its overall value. This finding underscores the importance of prudent capital structure decisions within the pharmaceutical sector as they directly correlate with firm value. Conversely, the study unveiled a somewhat surprising result regarding profitability, represented by ROA (Return on Assets).

The analysis indicated that, contrary to initial expectations, ROA did not wield a discernible influence on firm value. This suggests that, in the context of pharmaceutical companies during the specified timeframe (2016-2020), other factors or variables might have played a more pivotal role in determining and enhancing firm value than profitability alone. These conclusions provide valuable insights for pharmaceutical firms seeking to optimize their financial strategies and enhance their market standing. It is essential for such companies to carefully manage their capital structures, making prudent decisions regarding indebtedness. Additionally, firms should recognize that, in this particular sector, profitability alone may not be the sole driver of increased firm value, prompting further exploration into the multifaceted dynamics that influence it.

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