ARBITRASE: Journal of Economics and Accounting
ISSN 2722-841X (Media Online)
Vol 5, No 3, March 2025, Page 205-213
DOI: 10.47065/arbitrase.v5i3.2270
https://djournals.com/arbitrase

The Influence of Financial Performance and Company Size on Firm Value: An Empirical Study on Pharmaceutical Issuers

Marista Winanti Sutadipraja[1], Ashar Basyir[2,*], Ghina Kemala Dewi[1], Afrila Eki Pradita[2], Astried Permanasari[3]

[1] Department of Economy Accounting, Institute of Technology and Business Ahmad Dahlan, Banten, Indonesia
[2] Department of Economy Accounting, Gunadarma University, Depok, Indonesia
[3] Department of Economy Management, Gunadarma University, Depok, Indonesia
E-mail: [1]maristasutadipraja@gmail.com, [2,*]basyirashar@gmail.com, [3]ghinakemaladewi@gmail.com,
[4]afrila_pradita@staff.gunadarma.ac.id, [5]astried_permanasari@staff.gunadarma.ac.id
Corresponding Author Email: basyirashar@gmail.com
Submitted: **05/12/2024**; Accepted: **30/03/2025**; Published: **31/03/2025**

Abstract-Company value is an important indicator for investors in making decisions. This study aims to determine whether Return on Assets (ROA), Leverage, and Company Size influence Company Value in pharmaceutical manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2019-2021 period. The methods used in this study are Multiple Linear Regression Analysis, Descriptive Statistics, Classical Assumption Testing, and Hypothesis Testing. The population in this study was 10 pharmaceutical industry companies, which were then selected into four companies using the Purposive Sampling method. The analytical tool used in this study was the SPSS program. The results show that Return on Assets (ROA) does not significantly influence the company value variable proven with a significant value of 0.967 > 0.05. While Leverage and Company Size have a significant effect on the company value variable. The results of each variable obtained values below 0.05 (0.000 < 0.05) and (0.003 < 0.05). Return on Assets (ROA), Leverage, and Company Size have a simultaneous and significant effect on company value

Keywords: Return on Assets (ROA); Leverage; Company Size; Company Value

1. INTRODUCTION

In Indonesia, the COVID-19 virus has had a significant impact on many areas of life, especially the economic and financial sectors. The COVID-19 pandemic changed everything in society. Where habits refer to the health protocols established by the government, such as maintaining distance, avoiding crowds, boosting immunity, always wearing masks, regularly washing hands with soap and running water, and limiting mobility. The production of supplements, multivitamins, and medicines to meet demand during the Covid-19 pandemic increased by 5.69% in the third quarter of 2020 compared to the second quarter of 2020, according to data released by the Central Statistics Agency (BPS) in (Salsabilla Azzahra & Titiek Rachmawati, 2022). The demand for pharmaceutical products and medical devices surged in 2020 in response to the efforts of society and the government to anticipate and address the Covid-19 pandemic.

The highest increase in sales was in personal protective commodities, which rose by 50.3% from previously only 0.1%. Meanwhile, the largest increase in demand for health commodities was for masks at 12.6%, hand sanitizers at 3.1%, and hand soap at 2.1% (Kementerian Perindustrian Republik Indonesia, 2021).. The current economy has created intense competition among domestic companies. Competition drives each company to continuously improve its performance so that its goals can still be achieved. Both long-term goals, such as being able to increase the company's value and prosper shareholders, and short-term goals, such as maximizing the company's profit with the resources available.

According to Brigham, E. F., & Houston (2018), they state that the main goal of a company is to increase the company's value through the enhancement of the prosperity of the owners or shareholders. The increase in the company's value will become a public objective and will continue towards the orientation of the company's sustainability. In addition to increasing value, the company must also achieve the primary goal of maximizing the company's value. Maximizing the company's value can be achieved if the company pays attention to the stakeholders. The balance in achieving the goals of the company's stakeholders can provide the company with the opportunity to obtain optimal profits, thereby making the company's performance well-regarded by investors.

Jaya (2020) states that the value of a company reflects the level of success achieved by the company since its inception and also provides an overview of the financial performance achieved at a certain point. According to Jaya, a high value indicates that the company has good performance and its future prospects can be trusted by investors (Pambudi, A. S., Ahmad, G. N., & Mardiyati, 2022). The value of a company is greater if its stock price is higher, because a higher value indicates greater wealth for the shareholders. The market price of stocks reflects investment decisions, asset management, and financing, which indicate the wealth of the company and shareholders.

There are factors that influence the value of a company, namely Profitability, Leverage, and the size of the company. Profitability ratios are measurement tools used to assess financial performance or financial ratios that are frequently utilized. Profitability ratios include Return on Assets (ROA). Return on Assets is a ratio that indicates the likelihood of an investment generating the expected return, assuming that the investment is equal to the company's assets (Ardiyanto, A., Wahdi, N., & Santoso, 2020). ROA is measured by the total return on assets after interest and taxes. From this return, it can be determined that total assets reflect the management's performance in utilizing assets to achieve profits or earnings.

Leverage, also known as the solvency ratio, is a ratio that can indicate a company's ability to meet all its financial obligations in a liquidation situation (Dewantari, N. L. S., Cipta, W., & Susila, 2020). The ability of a company to meet

ISSN 2722-841X (Media Online)
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its debt obligations using the amount of assets it possesses is known as leverage (Petra & Rivandi, 2022). To increase capital and boost profits, companies often use leverage. Market valuation is influenced by the increase and decrease in debt levels. The company will lose value due to having a large amount of debt (Gede Rudangga, 2016).

One of the factors that influence a company's value is its size. The size of a company can be used to assess the company. Large companies have easier access to the capital market because their asset values are often greater than those of small companies (Dinson, 2019). Larger companies tend to attract investors because they have more options to obtain capital from various sources, such as loans from parties, external sources, or creditors. According to Cahyati et al. (2022), equity, sales, and total assets can be used to measure the size of a company.

Previous research conducted by Suwardika, I. N. A., & Mustanda (2017), found that company size does not partially affect company value; conversely, leverage value positively correlates with company value, with higher leverage value indicating higher company value. Meanwhile, the results of previous research conducted by Yunita (2019), show that Return on Assets (ROA) has a significant value of 0.0147, which is less than 0.05, and Company Size has a significant value of 0.0018, which is less than 0.05, both of which partially have a significantly positive effect on company value. Meanwhile, Leverage has a significant value of 0.6151, which is greater than 0.05, meaning it does not partially have a significant effect on company value. The research conducted by Agustiningsih & Septiani (2022) shows that company size does not affect company value, whereas profitability and leverage positively affect company value.

This research was conducted on pharmaceutical manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2021. The pharmaceutical subsector was chosen because demand for products related to COVID-19 management has increased significantly. Based on this background, the researchers were motivated to conduct tests to determine the factors influencing company value, building on previous research.

2. RESEARCH METHOD

The research objects used in this study are pharmaceutical sub-sector manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2019-2021. The population of pharmaceutical industry companies listed on the Indonesia Stock Exchange (IDX), consists of: PT Merck Indonesia Tbk, PT Kalbe Farma Tbk, PT Darya Varia Laboratoria Tbk, PT Pyridam Farma Tbk, PT Industri Jamu dan Farmasi Sido Muncul Tbk, PT Phapros Tbk, PT Kimia Farma (Persero) Tbk, PT Indofarma (Persero) Tbk, PT Tempo Scan Pacific Tbk, and PT Soho Global Health Tbk. totaling 10 companies.

The method used to determine the sample in this study is the purposive sampling method. The purposive sampling method is a sampling method based on several criteria or considerations, the criteria used in this study are as follows: 1) Pharmaceutical sub-sector manufacturing companies listed on the Indonesia Stock Exchange during the 2019-2021 period; 2) Companies that have complete data and publish financial reports during the 2019-2021 period, so companies that do not have complete data will be excluded from the sample; 3) Pharmaceutical sub-sector manufacturing companies that have the highest assets during the 2019-2021 period.

The following table contains the criteria for selecting samples of pharmaceutical industry companies listed on the Indonesia Stock Exchange for the 2019-2021 period:

Table 1. Sample Selection

No	Information	Amount
1	Pharmaceutical sub-sector manufacturing companies listed on the Indonesia Stock Exchange	10 Companies
2	Pharmaceutical industry companies that have published financial reports and have complete required data for 2019-2021	8 Companies
3	Manufacturing companies in the pharmaceutical sub-sector with the highest assets during the 2019-2021 period	4 Companies

Based on the qualification data, there are 4 companies that can be used as samples in this study, these companies are as follows:

Table 2. Research Sample

No	Company Code	Company name
1	KLBF	PT Kalbe Farma Tbk
2	KAEF	PT Kimia Farma Tbk
3	TSPC	PT Tempo Scan Pacific Tbk
4	SIDO	PT Sido Muncul Herbal Medicine and Pharmaceutical Industry Tbk

The sample of companies with the highest assets was selected for this study because larger companies tend to have better financial stability, stronger management capabilities, and easier access to capital resources. This allows for a clearer and more significant impact of variables such as Return on Assets (ROA), leverage, and company size on company value.

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Furthermore, larger companies are more likely to attract investment, making it important to assess the factors that contribute to company value.

The data used in this study is secondary data, that is, data obtained indirectly through intermediary media (obtained and recorded by other parties). The data in this study was obtained from the official website of the Indonesia Stock Exchange (IDX).www.idx.co.idand the official websites of each company. In addition, researchers also conducted library research by obtaining data related to the topic under study from various sources, such as books, journals, theses, and internet sites. This is because library research is the primary source of secondary data research.

Data analysis is one of the steps in research to organize and present data based on the data obtained. This study uses quantitative analysis techniques. This study was conducted to determine the effect of financial ratios on stock prices. The data analysis used is descriptive statistics. Descriptive statistics are statistics used to analyze data by describing or depicting the collected data as it is without the intention of drawing general conclusions or generalizations.(Sugiyono, 2018). The test tools used include classical assumption tests consisting of normality tests, multicollinearity tests, autocorrelation tests, heteroscedasticity tests, multiple linear regression analysis, coefficient of determination (R2), hypothesis tests including partial statistical tests (t-tests). The model of the multiple linear regression equation is as follows:

$$\boldsymbol{Y}=a+\ \beta 1\boldsymbol{X1}+\ \beta 2\boldsymbol{X2}\ +\ \beta 3\boldsymbol{X3}\ +\boldsymbol{e} \quad (1)$$

Information:

Y	: Company Values
A	: Constant
$\beta 1,\beta 2,\beta 3$	: Regression coefficient
X1	:*Return on Assets*
X2	:*Leverage*
X3	: Company Size
e	: Standard error

Based on the literature review that has been described, a research model can be developed with Return on Assets, Leverage and Company Size as independent variables, and Company Value as the dependent variable (Al umar & Nur Savitri, 2020). The research model can be described as follows:

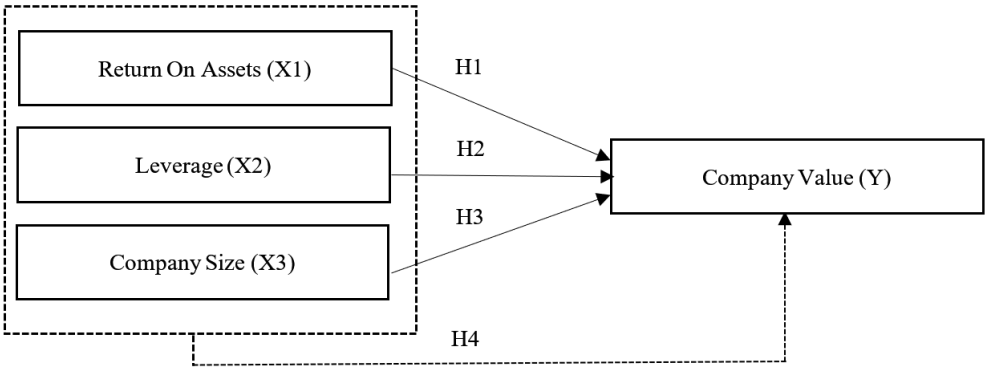

Figure 1. Research Model
Source: Al umar & Nur Savitri (2020)

A hypothesis is an unproven assumption that explains certain facts or phenomena and is also a possible answer to a research question. Therefore, this research hypothesis can be formulated as follows:

H1 : Return on Assets influence on company value
H2 : *Leverage* influence on company value
H3: Company size influences company value
H4: Return on Assets, Leverage, and Company size influence on company value

Operational definition of variables, According to (Kasmir, 2023), *Return on Assets* (ROA) is a financial ratio that measures a company's ability to generate profits from its assets. ROA shows how efficiently a company uses its assets to generate profits. According toHernawan et al. (2021),*Leverage*is how much of the company's funding needs are financed by debt. If the company does not use leverage, then the total funding uses its own capital. According toNiariana & Anggraeni (2022), states that company size is a reflection of the size of a company by looking at the company's total assets or net sales. The company size variable is measured using the natural logarithm multiplied by the company's total assets. According to Ningrum (2022), company value is a market value ratio, a ratio that reflects market conditions. This ratio can provide company management with an understanding of the conditions of the proposed implementation and its future impact.

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3. RESULTS AND DISCUSSION

3.1 Research result

3.1.1 Classical Assumption Test

The classical assumption test is used by using regression analysis on the independent and dependent variables. For the regression model to produce appropriate values, the data must first meet the four classical assumption tests. The classical assumption tests performed and the results are as follows:

a. Normality Test

The normality test aims to determine whether the dependent and independent variables in a regression model are normally distributed. To detect data normality, this study used graphical analysis, namely by examining histograms and Normal Probability Plots (PP Plots).

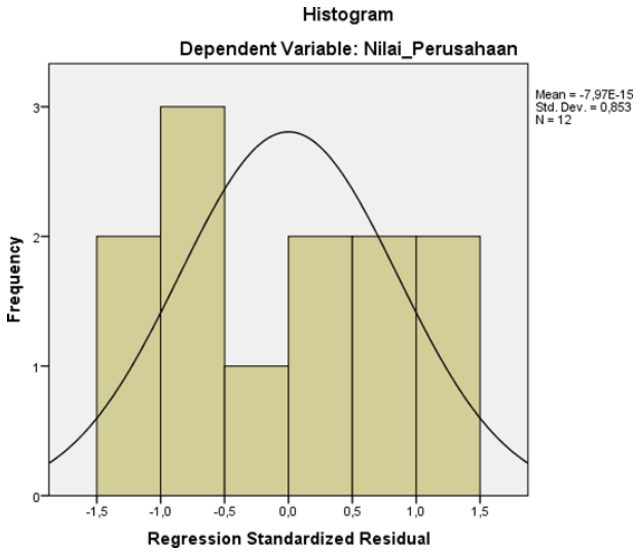

Figure 2. Histogram Graph

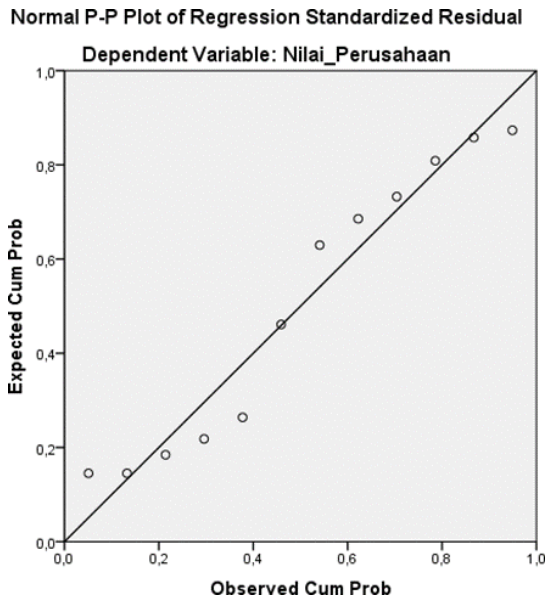

Figure 3. Normal PP Plot Graph

Based on the two figures above, it can be concluded that both graphs demonstrate that the regression model meets the assumption of normality. The histogram graph indicates that the data is normally distributed, and the plot graph shows that the points follow the diagonal line and are not spread too far from it.

b. Multicollinearity Test

The multicollinearity test in the research regression model can be determined by looking at the Tolerance and VIF (Variance Inflation Factor) values. According toGhozali (2018), there are no symptoms of multicollinearity if the tolerance value is > 0.100 and VIF < 10.00. The test results obtained are as follows:

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Table 3. Multicollinearity Test Results

Coefficients[a]			
		Collinearity Statistics	
Model		Tolerance	VIF
1	(Constant)		
	(Constant)		
	ROA	,736	1,358
	Leverage	,095	10,579
	Company_Size	,094	10,684

Based on Table 3, the results of the multicollinearity test show that there are independent variables that have a tolerance value of less than 0.10, which means there is a correlation between the independent variables. The results of the Variance Inflation Factor (VIF) calculation also show the same results, there are independent variables that have a VIF value of more than 10. So it can be concluded that there is multicollinearity between the independent variables in the regression model.

c. Heteroscedasticity Test

The heteroscedasticity test was conducted to determine whether the regression model used contained unequal variances from residuals from one observation to another. Detecting the presence or absence of heteroscedasticity was done by observing the presence or absence of certain patterns in the scatterplot graph between SRESID and ZPRED. The results of the heteroscedasticity test in this study can be seen in Figure 4.

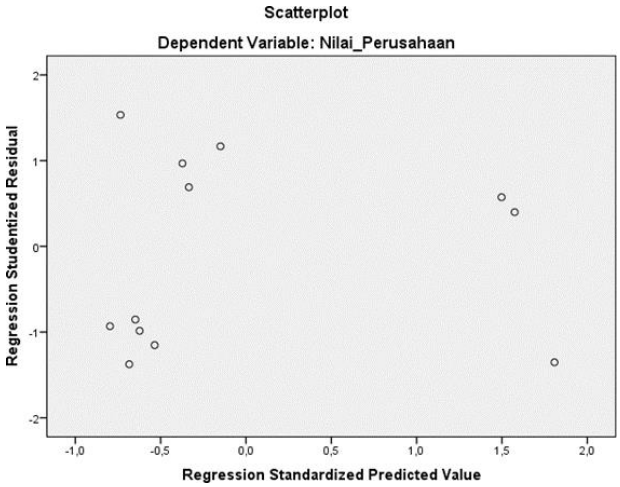

Figure 4. Scatterplot Graph

Based on the results of the heteroscedasticity test in Figure 4. above, it can be seen that the scatterplot graph shows that the points are spread randomly and are spread both above and below the number 0 on the Y axis. This can be concluded that there is no heteroscedasticity in the regression model, so the regression model is suitable for use to predict company value based on the input of independent variables Return On Assets (ROA), Leverage, and Company Size.

d. Autocorrelation Test

The autocorrelation test aims to see whether or not there is a correlation between the same variables over time. According toGhozali (2018)The autocorrelation test aims to test whether there is a correlation between the nuisance error in period t and the nuisance error in period t-1 (previous) in the linear regression model. The autocorrelation test in this study was conducted using the Durbin Watson test (DW-Test) where the decision-making criteria are as follows:

1. DW value inbelow -2 means there is an indication of positive autocorrelation.
2. DW value inbetween -2 to 2 means there is no autocorrelation.
3. DW value inabove 2 means there is an indication of negative autocorrelation.

Table 4. Autocorrelation Test Results

Model	R	R Square	Adjusted R Square	Standard Error of the Estimate	Durbin-Watson
1	,901a	,812	,741	1.26695	1,157

Table 4 shows that the DW value is 1.157. With 3 predictors (k-3) and 12 samples (n=12), based on the DW table with a significance level of 5%, the dL value can be determined to be 0.812 and dU to be 1.579. Thus, the dL value <DW <dU or 0.812 <1.157 <1.579, which means it does not produce a definite conclusion.

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3.1.2 Multiple Linear Regression Analysis

Multiple Linear Regression in this study was used to test whether there is an influence between the variables of profitability (ROA) (X1), company size (Ln TA) (X2), and leverage (DER) (X3) on company value (PBV) (Y). The test results in this study are shown in the table below:

Table 5. Results of Multiple Linear Regression Analysis

Coefficients[a]			
	Unstandardized Coefficients		Standardized Coefficients
Model	B	Std. Error	Beta
1 (Constant)	69,809	13,412	
ROA	-,004	,091	-,008
Leverage	-12,727	2,260	-2,810
Company_Size	-2,086	,430	-2,430

Based on the results of the multiple linear regression analysis presented, the following regression equation model can be obtained:

$$Y = 69.809 - 0.004\ (X1) - 12.727(X2) - 2.086(X3)$$

Based on the regression equation, the results can be interpreted as follows:

a. The constant value (α) of 69.809 indicates that Return on assets (ROA) (X4), leverage (X2), company size (X3) are 0, so the dependent variable of company value will be 69.809. Because the constant value is positive, there is an increase in company value of 69.809.
b. The regression coefficient for Return on Assets (ROA) is negative at -0.004, indicating that ROA has an inverse relationship with firm value. Every 1% increase in ROA decreases firm value by -0.4%.
c. The leverage regression coefficient (X2) is negative at -12.727, indicating that the environmental category has an inverse relationship with company value. Every 1% increase in the leverage variable (X2) will decrease the company value by -12.727.
d. The regression coefficient value of company size (X3) is negative at -2.086, indicating that the environmental category has an inverse relationship with company value. Every 1% increase in the company size variable (X3) will decrease the company value by -2.086.

3.1.3 Hypothesis Testing

Hypothesis testing in this study was carried out using a multiple regression analysis model, namely through the t-statistic test, the F-statistic test and the coefficient of determination test.

a. t-test (Partial)

The t-test is used to determine whether the independent variables, either partially or individually, significantly influence the dependent variable. This t-test will determine how the independent variables partially influence the company's value. The criteria for accepting or rejecting a hypothesis are as follows:

1. If the significance value of T < 0.05, then Ha is accepted and H0 is rejected. This means that the independent variable partially has a significant influence on the dependent variable.
2. If the significance value of T > 0.05, then Ha is rejected, so H0 is accepted. This means that the independent variable partially does not have a significant influence on the dependent variable.

Below are the results of partial hypothesis testing using the SPSS 23 program in the following table:

Table 6. Results of the t-Test (Partial)

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	T	Sig.
1	(Constant)	69,809	13,412		5,205	,001
	ROA	-,004	,091	-,008	-,043	,967
	Leverage	-12,727	2,260	-2,810	-5,632	,000
	Company_Size	-2,086	,430	-2,430	-4,846	,001

Based on the t-test results table, they are as follows:

1. The influence of Return on Assets on company value.
   The ROA variable (X1) has a significant probability value of 0.967 > 0.05, which means that the ROA variable (X1) has no effect on Company Value (Y). Thus, it is known that hypothesis 1 is rejected, namely that ROA (X1) partially has no effect on Company Value (Y).
2. The effect of leverage on company value.

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The leverage variable (X2) has a significant probability value of 0.000 < 0.05, which means that the leverage variable (X2) has an effect on Company Value (Y). Thus, it is known that hypothesis 2 is accepted, namely that leverage (X2) partially affects Company Value (Y).

3. The influence of company size on company value.
   The company size variable (X3) has a significant probability value of 0.001 < 0.05, which means that the company size variable (X3) has an effect on Company Value (Y). Thus, it is known that hypothesis 3 is accepted, namely that company size (X3) partially has an effect on Company Value (Y).

b. F Test (Simultaneous)
The F-statistic test is used to determine whether all independent variables included in the model have a joint influence on the dependent variable. The results of the F-test in this study are shown in the table below:

Table 7. Simultaneous Test Results (F Test)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	55,371	3	18,457	11,499	,003b
	Residual	12,841	8	1,605		
	Total	68,213	11			

Based on the table above, the results of the F test show that the F count value is 11.499 with a significance level of 0.003. It is known that the significance level is smaller than 0.05, which means that the variables Return on Assets (ROA), Leverage, and Company Size have a simultaneous and significant effect on company value.

c. Coefficient of Determination Test (**R2**)
The coefficient of determination from the results of multiple regression shows how much of the dependent variable can be explained by the independent variables. According to (Ghozali, 2018)The coefficient of determination (R2) essentially measures the extent to which a model is able to explain variations in the dependent variable. The coefficient of determination ranges from 0 to 1. If the coefficient of determination approaches 0, it means that the independent variable's ability to explain variations in the dependent variable is very limited. Meanwhile, if the coefficient of determination approaches 1, it can be said that the model is stronger in explaining variations in the independent variable on the dependent variable. The value used in this study is Adjusted R square, because it has more than two variables. The following are the results of the coefficient of determination test using the SPSS 23 program in the following table:

Table 8. Results of the Determination Coefficient Test (**R2**)

Model Summary

Model	R	R Square	Adjusted R Square	Standard Error of the Estimate
1	,901a	,812	,741	1.26695

Based on the table of determination coefficient test results (R^2), it can be seen that the Adjusted R Square value is 0.741 or 74.1%, which means that the company value variable can be explained by 74.1% by the Return on Asset (ROA), Leverage, and Company Size variables, while the remaining 25.9% is explained by other variables outside the research model.

3.2 Discussion

a. The Influence of Return on Assets (ROA) on Company Value
The test results for the Return on Asset (ROA) variable (X1) show a significant value of 0.967 > 0.05, so H0 is accepted and H1 is rejected, which means that Return on Asset (ROA) does not have a significant influence on the company value variable. The results of the study can be concluded that not all investors only pay attention to company profits in assessing the good or bad of a company, there are still other things to consider in assessing the good or bad of a company. This results in ROA in this study not having a significant effect on company value. The results of this study are in accordance with previous research conducted by Lestari et al. (2023), which shows that Return on Assets (ROA) has a significant effect on company value. The results of this study are not the same as previous research conducted by Yunita (2019), which shows that Return on Assets (ROA) has a significant positive effect on company value.

b. The Effect of Leverage on Company Value
The test results for the Leverage variable (X2) show a significant value of 0.000 < 0.05, so H0 is rejected and H1 is accepted, which means that Leverage has a significant effect on the company value variable. This study shows that high leverage can reduce company value, because large debt increases financial risk and can reduce investor confidence. Conversely, companies with lower levels of leverage tend to have higher company values. The results of this study are in accordance with previous research conducted by Suwardika, INA, & Mustanda (2020) and Putra, R., D., and Gantino (2021) which shows that leverage has a significant and positive influence on company value. However, this study does not comply with Yunita (2019) and Himawan, HM, & Andayani (2020) which shows that leverage does not have a significant effect on company value.

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c. The Influence of Company Size on Company Value
The test results for the Company Size variable (X3) show a significant value of 0.003 < 0.05, thus H0 is rejected and H1 is accepted, which means that Company Size has a significant effect on the company value variable. This is because large size reflects stability and ability to manage assets, which can increase investor confidence and ultimately increase company value. The results of this study are consistent with previous research conducted by Yunita (2019), which shows that company size has a significant effect on company value. However, this study does not comply with Suwardika, INA, & Mustanda (2020), where company size does not have a significant influence on company value, meaning that the size of the company does not impact the value of the company.

d. The Influence of Return on Assets (ROA), Leverage, and Company Size on Company Value
The F test result, which has a calculated F value of 11.499 and a significance level of 0.003. There is evidence that the variables Return on Asset (ROA), Leverage, and Size of Company have an effect on the value of the company with a significance level less than 0.05.

4. CONCLUSION

Based on the results of research, analysis, and discussion regarding the influence of Return on Assets, Leverage, and company size on company value, researchers can draw the following conclusions: 1) Return on Assets (ROA) does not have a significant influence on the company value variable. The results of the study can be concluded that not all investors only pay attention to company profits in assessing the good or bad of a company; there are still other factors to consider in assessing the good or bad of a company. This results in ROA in this study not having a significant effect on company value. 2) Leverage has a significant effect on the company value variable. This study shows that high leverage can reduce company value, because large debt increases financial risk and can reduce investor confidence. Conversely, companies with lower levels of leverage tend to have higher company values. 3) Company size has a significant effect on the company value variable. 4) Return on Assets (ROA), Leverage, and Company Size have a simultaneous and significant effect on company value. This is because large size reflects stability and ability to manage assets, which can increase investor confidence and ultimately increase company value. The suggestion is directed to the company, hoping that it will pay more attention to, utilize, and optimally manage all the resources owned and entrusted to the company to increase profits, thereby attracting investors to invest in the company.

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DOI: 10.47065/arbitrase.v5i3.2270
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