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Effect of Capital Structure, Liquidity, Profitability, Dividend Policy, Company Growth, and *Free Cash Flow* on Company Value

(Study on the Food and Beverage Sub-Sector Listed on the Indonesia Stock Exchange)

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Abstract

This study examines the effects of capital structure, liquidity, profitability, dividend policy, company growth, and free cash flow on firm value. The object of this study is the Food and Beverage Sub-Sector, which is listed on the Indonesia Stock Exchange for the 2017-2021 period. The results indicate that the Capital Structure variable has an insignificant negative effect on firm value, liquidity has an insignificant positive effect on firm value, profitability has a significant positive effect on firm value, Dividend Policy has a significant positive effect on firm value, Company Growth has an insignificant negative effect on firm value, and Free Cash Flow has no significant positive effect on firm value.

Keywords: *Capital Structure, Company Growth, Dividend Policy, Free Cash Flow, Liquidity, Profitability.*

INTRODUCTION

The value of a company that has gone public can be seen from the share price issued by the company; if the share price is high, then the company value is also high, and vice versa (Suharli, 2006). According to Sudarma (2004) in Lifessy (2011), the factors that affect firm value are company size, company growth, company uniqueness, asset value, dividends, tax savings, capital structure, exchange rate fluctuations, and capital market conditions. Meanwhile, according to Amirya and Atmini (2007), Oktaviani (2008), and (Nofrita 2013), the factors that affect firm value are dividend policy, profitability, sales growth, and company size. However, this study discusses six factors that affect firm value: Capital Structure, Liquidity, Profitability, Dividend Policy, Company Growth, and Free Cash Flow.

Another factor that affects firm value is liquidity, A liquidity ratio is a ratio that measures a company's ability to meet its short-term obligations. The company's value can also be influenced by its profitability. Weston and Copeland (1997) define profitability as the extent to which a company generates profits from sales and investments. Another factor that affects firm value is the dividend policy. Dividend policy determines how much dividends will be distributed to shareholders (Irawati, 2012) (Efendy & Sanjaya, 2021).

The last factor that affects firm value is free cash flow. Agency conflicts can also be caused by free cash flows. Free cash flow is the right of shareholders, so investors also demand the distribution of free cash flow in the company, while management has the view of using free cash flow through reinvestment that can benefit them (Putri, 2013).

The reason researchers choose food and beverage sub-sector companies is because this industrial sector includes stocks that are most resistant to monetary or economic crises, compared to other sectors, because in any condition of crisis or no crisis, food and beverage products are needed.

Therefore, the authors want to conduct further research by taking the title "The Effect of Capital Structure, Liquidity, Profitability, Dividend Policy, Company Growth, and Free Cash Flow on Company Value in Food and Beverage Sub-Sector Companies Listed on the Indonesia Stock Exchange 2017-2021".

LITERATURE REVIEW

Company Value

Firm value is the price investors are willing to pay if the company is to be sold (Brigham & Houston, 2010) inAgustinah (2020). Good company value is the goal of every company so that when the company value increases, investors will invest in the company. Firm value is the company's performance, which is reflected by the company's stock price, which is formed in the capital market demand and supply and reflects the public's assessment of the company's performance (Sari, 2020) in (Kustiani, Sari, and Subaida 2022).

Capital Structure

Sartono (2017) states that "capital structure is the balance of the amount of permanent short-term debt, long-term debt, preferred stock, and common stock". Determining capital structure can help companies strategically target debt and equity levels. When the level of borrowing with capital is below the target, the step that the company needs to take is to issue bonds or notes but when the level of borrowing with capital is above the target, the company will issue shares (Hasudungan, 2017).

Liquidity

Sartono (2014) states that liquidity is a company's ability to meet short-term obligations. A high liquidity value reflects a company's ability to meet short-term obligations. Companies with good liquidity values are considered to have good investor performance. High liquidity shows a company's power in terms of its ability to meet current obligations from its current assets, which increases external parties' trust in the company.

Profitability

Profitability is the ability of a company or business to generate profits or net profits related to sales, assets, and equity that can be achieved during a certain period of operational activities. To see the company's prospects in the future, it is necessary to have indicators in the growth of a company's profitability because the existence of these indicators is very helpful for investors to facilitate or know the extent to which the investment to be made can provide a return that is comparable to the level desired or expected for investors (Amro & Asyik, 2021).

Dividend Policy

Dividend policy is a decision taken by the company regarding dividends, whether profit will be shared with shareholders or investors in the form of dividends, or whether profit will be retained as retained earnings for future investment financing (Efendy & Sanjaya 2021).

Growth Company

Kusumajaya (2011) in Suryandani (2021) argue that growth is an increase or decrease in the total assets owned by the company. The assets of a company are assets that are used for the company's operational activities, which is expected to increase the company's operational results to increase trust and provide a positive signal both outside and inside the company.

Free Cash Flow

According to Anggreini and Asyik (2018), Free Cash Flow is the cash flow available for distribution to investors after the company invests in fixed assets and working capital needed to maintain business continuity.

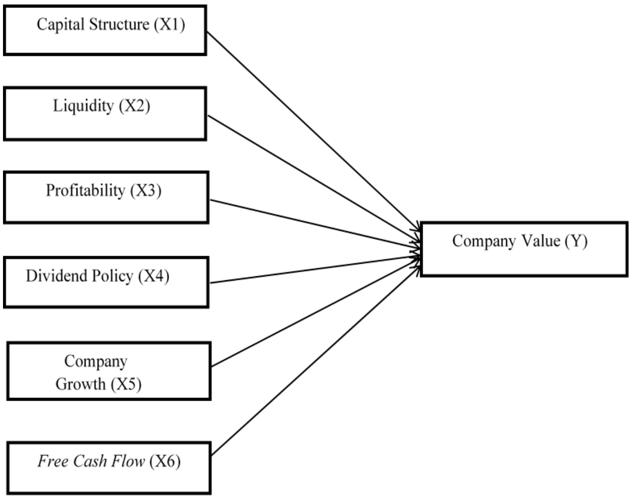

Figure 1. Research Conceptual Framework

Based on the description of the framework and problem formulation above, the summary hypothesis of this study is as follows:

H1: Capital Structure positively affects firm value.
H2: Liquidity positively affects firm value.
H3: Profitability positively affects firm value.
H4: Dividend policy has a positive effect on firm value.
H5: Company growth has a negative effect on firm value
H6: Free Cash Flow has a positive effect on firm value

METHODS

Location and Time of Research

The object of this research is the effect of capital structure, liquidity, profitability, dividend policy, company growth, and free cash flow on firm value in food and beverage companies on the Indonesia Stock Exchange. This research was conducted by analyzing secondary data from the annual report of the Food and Beverage Sub-Sector 2017–2021. The annual report of the food and beverage sub-sector has been published on the website www.idx.com.id or the website of each company.

Population and Sample

This study included 72 companies in the food and beverage subsector listed on the Indonesia Stock Exchange for the period 2017–2021. After being selected based on the criteria described above, the sample obtained was 16 food and beverage subsector companies that were eligible to be sampled in this study.

Operational Definition of Variables

The dependent variable in this study is Firm Value which is proxied by Price to Book Value (PBV). Price To Book Value is Price to Book Value (PBV), which is a stronger predictor of stock returns than interest rate spread and dividend yield.

Capital Structure is the balance of the amount of permanent short-term debt, long-term debt, preferred stock, and common stock. Capital structure is proxied by the debt-equity ratio (DER).

Liquidity is the ratio used to measure the liquidity of a company. Liquidity compares all components of current assets with components of the current passive (short-term debt) (Kasmir, 2019). The liquidity ratio is proxied by the Current Ratio (CR).

Profitability is the ability of a company or business to generate profits or net profits related to sales, assets, and equity that can be achieved during a certain period of operational activities. Profitability is proxied by Return on Equity (ROE).

Dividend Policy is a policy on when and how much company profit is obtained in a period, distributed to shareholders, and retained in the company, while still paying attention to the company's goal of increasing company value. The dividend Policy is proxied by the Dividend Payout Ratio (DPR).

Company growth is a comparison of the total assets owned by the company with that of the previous year. Company growth is proxied by Assets Growth (AG).

Free Cash Flow is the cash flow available for distribution to investors after the company invests in fixed assets and working capital needed to stay in business continuity.

RESULTS AND DISCUSSION

The regression analysis method is used in the research data to determine whether there is an influence between the independent variable and the dependent variable. Based on data processing with the SPSS program version 26, data is obtained as stated in the table

The Effect of Capital Structure (DER) on Firm Value

Based on the results of the hypothesis testing conducted in this study, it is found that the Debt To Equity Ratio (DER) has a negative and insignificant effect on firm value (PBV) in food and beverage companies listed on the Indonesian Stock Exchange (IDX) for the 2017-2021 period. This shows that the amount of capital owned by a company is higher than the amount of debt that the company must pay. This means that investors have a low level of responsiveness to information, especially those related to a company's capital value in making investment decisions.

The Effect of Liquidity on Company Value

Based on the results of hypothesis testing conducted in this study, it is found that the Current Ratio (CR) has a positive and insignificant effect on firm value e (PBV) in food and beverage companies listed on the Indonesia Stock Exchange (IDX) for the 2017-2021 period. This shows that liquidity (CR) can pay short-term debt and has not been able to provide positive information to investors; however, a high level of liquidity causes a decrease in company value.

Table 1. Fixed Effect Model

Dependent Variable: Y
Method: Panel EGLS (Cross-section random effects)
Date: 02/18/23 Time: 18:47
Sample: 2017 2021
Periods included: 5
Cross-sections included: 16
Total panel (balanced) observations: 80
Swamy and Arora estimator of component variances

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.584696	0.545107	4.741628	0.6214

X1	-0.462385	0.268809	-1.720124	0.0896
X2	0.067649	0.071424	0.947154	0.3467
X3	2.807568	1.678402	1.672763	0.0387
X4	0.091311	0.262943	0.347265	0.0294
X5	-0.297062	0.403862	-0.735553	0.4644
X6	0.292643	1.122668	0.260667	0.7951
Effects Specification				
			S.D.	Rho
Cross-section random			1.229702	0.7582
Idiosyncratic random			0.694443	0.2418
Weighted Statistics				
R-squared	0.660103	Mean dependent var		0.586358
Adjusted R-squared	0.570656	S.D. dependent var		0.700239
S.E. of regression	0.703960	Sum squared resid		36.17588
F-statistic	0.861180	Durbin-Watson stat		1.464654
Prob(F-statistic)	0.000686			
Unweighted Statistics				
R-squared	0.129455	Mean dependent var		2.394625
Sum squared resid	160.7433	Durbin-Watson stat		0.329626

The Effect of Profitability on Company Value

Based on the results of the hypothesis testing conducted in this study, it was found that Return on Equity (ROE) has a positive and significant effect on firm value (PBV) in food and beverage companies on the Indonesia Stock Exchange (IDX) for the 2017-2021 period. This shows that profitability has a significant effect on firm value because if profitability increases, the company's value will also increase.

The Effect of Dividend Policy on Company Value

Based on the results of hypothesis testing conducted in this study, it is found that the Dividend Payout Ratio (DPR) has a positive and significant effect on firm value (PBV) in food and beverage companies' listed asset growth (IDX) for the 2017-2021 period. This means that, if the dividend payout ratio value decreases, the price-to-book value increases.

The Effect of Company Growth on Company Value

Based on the results of the hypothesis testing conducted in this study, it was found that asset growth (AG) has a negative and insignificant effect on firm value (the PBV) in food and beverage companies listed on the Indonesia Stock Exchange (IDX) for the 2017-2021 period. This is because of the large change in the company's total assets or total assets in the previous year. Thus, it can be concluded that any change in the increase in total assets and total assets during the study period can affect the value of the company for investors.

The Effect of Free Cash Flow on Company Value

Based on the results of hypothesis testing conducted in this study, it is found that Free Cash Flow has a positive and insignificant effect on firm value (PBV) in food and beverage companies listed on the Indonesia Stock Exchange (IDX) for the 2017-2021 period. This shows that the higher free cash flow owned by the company causes and internal companies to be insufficient because the company will issue working capital and use human resources for company operations so that it will increase company expenses and reduce company profits, which affects the distribution of dividends to shareholders and affects the decline in company value.

CONCLUSION

Based on simultaneous tests, the variables capital structure, liquidity, profitability, dividend policy, company growth, and free cash flow have a significant effect on firm value (PBV).

Capital Structure (DER) has a negative and insignificant effect on firm value (PBV). This means that the amount of capital owned by a company is higher than the amount of debt that must be paid by the company. This means that investors have a low level of responsiveness to information, especially that related to the value of the company's capital in making investment decisions.

Liquidity (CR) has a positive and insignificant effect on firm value. This means that the company can pay short-term debt and has not been able to provide positive information to investors; however, a high level of liquidity causes a decrease in company value.

Profitability (ROE) has a positive and significant effect on firm value. This means that the better the company's ability to generate profits, the higher the company's value will also increase.

Dividend Policy (DPR) has a positive and significant effect on firm value. This means that the high and low dividends paid to shareholders are unrelated to the high and low values of the company.

Company Growth (AG) has a negative and insignificant effect on firm value. This means that any change in the increase in total assets and total assets during the study period can affect the value of the company for investors.

Free Cash Flow has a positive and insignificant effect on firm value. This means that the lower the free cash flow generated by the company, the lower is the company value.

ADVICE

Based on the conclusions of the researchers, the following suggestions were proposed in this study:

Before carrying out investment activities, investors should pay attention to the variables of liquidity, profitability, dividend policy, company growth, and free cash flow in food and beverage sub-sector companies to decide when it is the right time to invest.

For further research, we expect to use different financial ratios that have not been included in this study, because there are still many financial ratios that can see the value of the company. The author also suggests that future researchers increase the theory that is strengthened, increase the research period, and conduct previous research that is different from the author; for further research, the author suggests using other company samples. This is to obtain more accurate results and show whether subsequent research will provide different or the same research results.

In addition, the authors recognize that there are still many limitations. These limitations include the fact that the author has not been so complete in supporting the process of writing this research so there are many shortcomings in supporting the theory or justification of the problems raised.

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